Date: May 11, 2011

To: Human Resources Officers
    Benefit Officers

From: Evelyn Nazario
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    Human Resources Management

Subject: State Income Tax – Age 24 to 25 Health and Dental Plan Dependents

Overview

Audience: Benefit Officers or campus designees responsible for administering benefit programs

Action Item: None (Informational Only)

Affected Employee Group(s)/Unit(s): Benefits eligible employees who add age 24-25 dependents to health and/or dental plans

Summary

HR/Benefits 2011-04 advised campuses that while federal health reform legislation expanded dependent eligibility to age 26, and the Internal Revenue Service extended the federal income tax exclusion for employer-sponsored medical benefits up to age 27 for dependent children, California did not change its tax rules to accommodate the modified federal definition of dependent. As a result, employees who enrolled age 24 – 25 dependents were potentially subject to additional state income tax liability beginning in 2011.

This is to advise campuses AB 36 was signed by Governor Brown on April 7, 2011, that conforms California state income tax rules to the federal extension of the dependent age. The law is retroactive to January 1, 2011; therefore, employees are no longer potentially subject to additional state income tax liability for age 24-25 dependent health and dental coverage.

Campus designees responsible for administration of CSU benefits programs should review the Technical Letter in its entirety.

Recent federal health reform legislation extended health dependent eligibility to age 26. The CSU extended dependent eligibility to age 26 for dental and vision plans. In conjunction with the extension of dependent eligibility, the Federal Internal Revenue Service also extended the federal income tax exclusion for employer-sponsored medical benefits to include dependent children up to age 27.
However, California state income tax rules were not changed to modify the definition of “dependent” as used in the Revenue and Taxation Code. Employees who enrolled age 24-25 dependents during the fall 2010 open enrollment period, who subsequently enrolled age 24-25 dependents during 2011, or whose existing dependents reached age 24, were potentially subject to additional state income tax liability beginning with the 2011 tax year.

This is to advise campuses that on April 6, 2011, AB 36 was enacted which conforms California state income tax rules to the federal extension of the dependent eligibility age. This change is effective retroactive to January 1, 2011, the date CSU expanded its dependent eligibility rules to age 26 for health, dental and vision plans. Therefore, employees are no longer potentially subject to additional state income tax liability for age 24-25 dependent health and dental coverage.

Questions regarding this Technical Letter may be directed to Human Resources Management at (562) 951-4411. This Technical Letter is also available on the Human Resources Management Web site at: http://www.calstate.edu/HRAdm/memos.shtml

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