

Definition of Dependent

For purposes of health benefit eligibility, Montana law defines *dependent* as follows:

1. A spouse
2. An unmarried child under age 25 unless
 - i. the dependent child is eligible for coverage as a member under an existing plan or policy; or
 - ii. the premium cost to the dependent child under his or her employer's plan or policy is less than or equal to the additional cost of dependent coverage under the parent's plan*.
3. A child of any age who is disabled and financially dependent upon the parent (as outlined by applicable laws).
4. Any other individual specified by the health benefit plan. (MUST covers unmarried adult dependents who meet requirements outlined in the plan.)

*An unmarried child between the ages 19 and 25 who is eligible for coverage under his/her employer's plan may be covered as a dependent under the parent's plan if the child's premium under his/her employer's plan is more than the additional cost for the parent to add the child as a dependent to the parent's plan.

Dependent Eligibility Tests (MUST and IRS)

The MUST Summary Plan Document defines a child as a natural child, a legally adopted child, or the following who resides with the participant and who is financially dependent upon the participant for support and maintenance: stepchild, a child placed for adoption with the participant, a child for whom the participant has been appointed the legal guardian by a court of competent jurisdiction prior to the child attaining nineteen (19) years-of-age.

However, the IRS defines a taxpayer's "qualifying child" as someone who meets the four-part test outlined below.

Summary of IRC 152

Relationship Test	The child is a natural child, stepchild, adopted child, or child for whom the employee has legal guardianship.
Residency Test	The child must claim his or her primary residency to be the same as the employee's for at least half of the calendar year. Temporary absences for schooling, military service, illness, and vacations are not counted against this measurement.
Age Test	A child who is not a full-time student must be less than 19 years old at the end of the tax year for which the employee is claiming him or her as a dependent. If the child is a full-time student the child must be less than 24 years old at the end of the tax year for which the employee is claiming him or her as a dependent. <i>The age test does not apply to dependent children who are mentally or physically disabled to the extent they are not self-supporting.</i>
Self-support Test	The child must not have provided more than half of his or her own support during the calendar year for which the employee intends to claim him or her as a dependent.

Tax Implications

There may be tax implications for a participant who covers someone that does not meet the IRS definition of a qualified dependent.

- Under IRS regulations, each dependent who does not meet the entire four-part health benefit eligibility test outlined above may create imputed income** for the member.
- All covered dependent children over age 24 may create imputed income** for the employee.
- Because the IRS does not recognize same-sex domestic partners as dependents, the value of the medical (and/or dental & vision) benefits provided for a domestic partner may be considered taxable income.

**IMPUTED INCOME: Imputed income is the addition of the value of cash/non-cash compensation to employees' taxable wages in order to properly withhold income and employment taxes from the wages. Imputed income is taxable to the assignee (unless specifically exempt).

NOTE: There are additional rules for children whose parents are divorced or separated. Employees should check with an attorney or tax consultant to determine whether they are allowed to claim a child for federal income tax purposes in these situations.

MUST is not a tax advisory organization. Districts and employees desiring to cover persons not considered qualified tax-dependents for IRS purposes should consult qualified tax advisors.



DETERMINATION OF DEPENDENT TAX LIABILITY WORKSHEET

Please answer the questions below as they apply to your dependent(s) to determine if covering your dependent may create tax consequences.

Adult Dependent: My adult dependent is a covered dependent on my plan. ____ Yes ____ No

If you answered yes, covering your adult dependent may create tax consequences for you.

Child #1 _____

1. This child is less than 19 years old and meets the four-part test considered for tax dependency (refer to page 1 for IRS four-part test). ____ Yes ____ No
2. This child is between 19 and 24 and meets the four-part test considered for tax dependency. ____ Yes ____ No
3. This child is 24 years old. ____ Yes ____ No

Child #2 _____

1. This child is less than 19 years old and meets the four-part test considered for tax dependency (refer to page 1 for IRS four-part test). ____ Yes ____ No
2. This child is between 19 and 24 and meets the four-part test considered for tax dependency. ____ Yes ____ No
3. This child is 24 years old. ____ Yes ____ No

Child #3 _____

1. This child is less than 19 years old and meets the four-part test considered for tax dependency (refer to page 1 for IRS four-part test). ____ Yes ____ No
2. This child is between 19 and 24 and meets the four-part test considered for tax dependency. ____ Yes ____ No
3. This child is 24 years old. ____ Yes ____ No

- *If you answered yes to questions 1 or 2 for any child, covering that child does not create tax consequences for you.*
- *If you answered no to questions 1 or 2 for any child, covering that child may create tax consequences for you.*
- *If you answered yes to question 3 for any child, covering that child may create tax consequences for you.*

If coverage of your child or adult dependent may create a tax consequence, please consult with your district clerk or Human Resources Department.

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