

INDIANA UNIVERSITY

Important Information for Same-Sex Domestic-Partner Benefits

PLEASE READ THIS NOTICE CAREFULLY TO AVOID UNEXPECTED PAYROLL DEDUCTIONS RELATED TO DOMESTIC-PARTNER BENEFITS.

Enrolling a domestic partner and/or the partner's child in an employer-sponsored health care plan can have meaningful cost implications due to the IRS tax treatment of these benefits:

1. In general, both the university's and employee's cost of providing domestic-partner benefits is considered taxable income by the IRS. **These taxes can be significant.**
2. The employee is responsible for paying taxes on these costs *in addition to* the cost of paying the employee/spouse or family premiums.
3. Based on the timing of enrollment in relationship to the payroll cycle, there can be an initial "catch-up" paycheck effect when premiums and taxes for prior months' coverage are deducted.

These taxes can be avoided only if the employee is eligible to claim the domestic partner and/or the partner's child as a tax dependent under IRS Section 152.* In this case, the employee should submit a *Certification of Tax-Qualified Dependents* form to University Human Resource Services. Otherwise the university's contribution will be reported on the employee's annual Form W-2 as additional income subject to federal and state income taxes as well as for FICA (Social Security and Medicare).

The amount of the additional taxable income depends upon the plan in which the employee is enrolled and the resulting level of coverage (Employee w/Spouse, Employee w/Child(ren), Family). In order to estimate the cost of taxes on domestic-partner benefits, use the total plan cost information on the University Human Resource Services Web site (www.indiana.edu/~uhrs). Calculate the additional taxable income using this formula:

total plan cost for all enrolled individuals **minus** *total plan cost for tax-qualified individuals* **equals** *additional taxable income*

The tax assessed on this additional income will vary by the employee's tax rate. Taxes can be approximated using a 36 percent tax rate for an employee in the 25 percent federal tax bracket (25 percent federal, 7.65 percent FICA, and 4 percent state and local taxes).

EXAMPLE 1: The 2007 annual tax estimate is \$2997.30 for an employee enrolling a non-tax-qualified domestic partner in the IU PPO-Plus plan. The employee monthly cost would be the \$486.52 Employee w/Spouse premium plus \$249.78 in taxes. These costs are calculated as follows:

The employee's additional monthly taxable income is the difference between the total monthly cost for Employee w/Spouse coverage and the total monthly cost for Employee Only coverage ($\$1180.34 - \$486.52 = \$693.82$). Annual taxes can be estimated by multiplying this monthly amount by 12 and then by 36 percent (estimated federal, FICA, and state/local taxes).

EXAMPLE 2: The 2007 annual tax estimate is \$1022.11 for an employee enrolling along with his or her child and a non-tax-qualified domestic partner in the \$900 Deductible plan. Employee monthly cost is the \$12.58 Family premium plus \$85.18 in taxes. The tax costs are calculated as follows:

The employee's additional monthly taxable income is the difference between the total cost of Family coverage and the total cost for Employee w/Child(ren) coverage ($\$845.87 - \$609.27 = \$236.60$). Annual taxes can be estimated by multiplying this monthly amount by 12 and then by 36 percent (estimated federal, FICA, and state/local taxes).

* If an employee considers certifying his or her partner as a tax dependent, consulting a tax advisor is recommended. Falsely certifying a tax dependent may result in charges of tax fraud by the IRS and disciplinary action (including termination) by the university. This document is not specific legal or tax advice.