



# NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

## Office of Executive Director

410 Old Taos Highway  
Santa Fe, New Mexico 87501  
1-800-548-3724 or 505-988-2736  
505-983-8670 (fax)

### BOARD OF DIRECTORS

- NM School Boards Association
- NM Superintendents Association
- Public Education Commission
- NM School Administrators
- NM National Education Association
- American Federation of Teachers N.M.
- Governor Appointees
- Educational Institutions at Large

**Richard Valerio**  
Executive Director

**Patrick Sandoval**  
Deputy Director

January 1, 2021

## MEMORANDUM

**TO:** Business Managers, Benefits and Payroll Specialists

**FROM:** Richard Valerio *RV*  
Executive Director

**SUBJECT:** Domestic Partner Coverage Imputed Income  
Effective January 1, 2021

---

This document and the attachments contain updated information on Imputed Income and Fair Market Values effective January 1, 2021 when the new medical premium rates become effective for members enrolled in a Cigna plan option.

According to federal law, tax-preferred benefits for dependents are excluded from income for the employee only for eligible dependents, (dependents meaning a qualifying child or a qualifying relative as those terms are defined in the IRS regulations, as amended).

Domestic partners and children of domestic partners may not be able to meet the definition of dependent, and therefore their benefits may not be able to be pre-taxed to the employee.

In order for a domestic partner (or the domestic partner's child(ren)) to satisfy the definition of dependent under the IRS Code, he or she must meet all of the following requirements:

1. have the same principal place of abode as the employee for the entire year; and
2. be a member of the employee's household; and
3. receive more than one-half his or her support from the employee; and
4. the person cannot be the qualifying child of any other taxpayer.

Generally, a domestic partner's child(ren) is a dependent of the domestic partner, and therefore cannot also be the dependent of the employee under the IRS Code rules, unless the employee has legally adopted such child(ren).

If the domestic partner (or child(ren)) of the domestic partner do not satisfy the requirements for being a dependent (as defined by the IRS), NMPSIA must include the Fair Market Value of the coverage provided to a domestic partner or his/her child as income to the employee. The additional income is subject to income tax as well as FICA and FUTA taxes.

NMPSIA's consulting firm has provided the Fair Market Value of each of the benefit options.

The Fair Market Value for an Adult was set equal to the projected average value of single adult coverage prior to offset for employer or employee contribution. A Fair Market Value has also been actuarially set for each individual child of a domestic partner.

These monthly amounts, LESS THE AMOUNT OF THE EMPLOYEE'S MONTHLY DEDUCTIONS, must be included in the employee's wages and taxed as income. If the employee is already enrolled for family coverage, and an eligible domestic partner or their child is added, the Fair Market Value for each must be reported as additional imputed income.

Please refer to the Imputed Income charts which outline the Fair Market Value based on all possible scenarios.

If the employee is enrolled in family coverage due to eligible dependents, then there is no additional payroll deduction. HOWEVER, the employee continues to be taxed on the full amount of Fair Market Value of the coverage provided to the new domestic partner and/or each child of the domestic partner who are to be covered.

Please note if your school offers a Section 125 plan where an employee's payroll contributions for health coverage are pre-taxed, the payroll deductions for the domestic partner (and the children of the domestic partner) who are not eligible dependents (as defined by the IRS) do not qualify, and may not be made pre-tax to the employee.

Lastly, if a previously covered employee marries their domestic partner, as evidenced by a state issued marriage certificate, then no Imputed Income applies after the date of the marriage.

If you have questions, please contact the NMPSIA Benefits office.