



NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

Office of Executive Director

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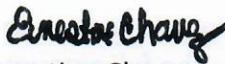
Ernestine Chavez
Executive Director

Richard Valerio
Deputy Director

September 25, 2019

MEMORANDUM

TO: Business Managers, Benefits Specialist, and Payroll Specialists

FROM: 
Ernestine Chavez
NMPSIA Executive Director

SUBJECT: Domestic Partner Coverage Imputed Income Change
Effective October 1, 2019

This document and the attachments contain updated information on Imputed Income and Fair Market Values effective October 1, 2019, when the medical rate changes.

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 IS 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 the 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 another taxpayer.

Generally, a domestic partner's child 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.

If the domestic partner (or child(ren)) of the domestic partner does not satisfy the requirements for being a dependent (as defined by the IRS), we must include the fair market value of the coverage provided to a domestic partner or his/her child as income to the employee; and this additional income is subject to income tax as well as FICA and FUTA taxes.

Our 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 DEDUCTION, must be included in the employee's wages and taxed as income.

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

If the employee already has family coverage due to eligible dependents, then there is not additional payroll deduction – but the employee is still taxed on the full amount of Fair Market Value of the coverage provided to the new domestic partner and each child of a 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 domestic partners (and the children or domestic partners) who are not eligible dependent (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.

Please alert your payroll department of these requirements. If you have questions, please contact me at ernestine.chavez@state.nm.us.