

Definition of an "Eligible Dependent"

UPDATED MAY 2010 – Page 1

See Page 2 for Adult Children Under Age 27, Divorced Parent Information and Domestic Partners

To Be Considered A "Qualifying Child" Dependent:

RELATIONSHIP The Child must be a Biological or Adopted child; a Foster child; a Brother or Sister; a Stepbrother or Stepsister or the Qualifying Child may be the child of one of those individuals, such as a Niece, Nephew, Grandchild, or Great-grandchild.

RESIDENCE Must reside with the Employee for more than one-half (1/2) of the year.

AGE Age 18 or less as of the last day of the year (not age 27 as of the last day of the year), or; A full-time student age 23 or less as of the last day of the year. To be a full-time student, the child must be attending school full-time for at least 5 months of the year, or; The individual is permanently and totally disabled.

SUPPORT An individual does not qualify as a dependent if they provide more than 1/2 of their own support for that calendar year. (Exception: Qualifying children receiving educational scholarships.)

TIE-BREAK RULE If more than one taxpayer is involved, the one to claim the child as a "qualifying child" would be: The parent, if one of the taxpayers, or; The parent with whom the child resided the longest during the year if both taxpayers are the parents, and the parents file separate tax returns, or; If neither are parents, the taxpayer with the highest adjusted gross income.

To Be Considered A "Qualifying Relative" Dependent:

RELATIONSHIP

- Anyone that would be a qualifying child except for the age limitations and is not a qualifying child for any other taxpayer in the same year, **or**;
- Parents or ancestors (grandparents, great-grandparents), stepparents (but not ancestors of stepparents), aunts or uncles, in-laws, **or**;
- An individual (other than the spouse) who, for the tax year of the taxpayer, has the same principal place of abode as the taxpayer and is a member of the taxpayer's household. "An individual shall not be treated as a member of the taxpayer's household if at any time the relationship between such individual and the taxpayer is in violation of local law."

RESIDENCE For an individual to be a member of the employee's household for the entire year, the employee must both maintain **and** occupy the household.

INCOME The income requirements do not apply to Medical benefits, such as the Medical Flex Spending, Health Reimbursement Arrangements and Pre-tax health insurance.

SUPPORT The Employee must provide more than one-half (1/2) of the support for the individual to be qualified. (Exception: Qualifying children receiving educational scholarships.)

The Following Requirements Apply To Both "Qualifying Child" & "Qualifying Relative"

U.S. CITIZEN Except for adopted children "A dependent does not include any individual who is not a citizen or national of the United States unless such individual is a resident of the U.S. or a country contiguous to the U.S."

NOT MARRIED An individual who is a qualifying dependent cannot claim anyone else as a dependent and a married individual who files a joint tax return with their spouse cannot be a dependent of any other taxpayer. (However, the married dependent filing a joint tax return can receive tax-free medical benefits, such as the Med-FSA and pre-tax health insurance, if they otherwise qualify as dependents.)

MULTIPLE SUPPORT AGREEMENTS If no one person contributed over one-half of the support of a dependent, then written declarations allowing an individual to claim an otherwise qualifying dependent are required. To claim the dependent, the taxpayer must have contributed more than 10% of the support and only if each taxpayer that contributed over 10% towards the support of the dependent signs a written declaration allowing that person to claim the dependent.

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Definition of an "Eligible Dependent"

UPDATED MAY 2010 - Page 2

Adult Children Under Age 27, Divorced Parent Information and Domestic Partners

ADULT CHILD UNDER AGE 27 - EFFECTIVE MARCH 30, 2010

The Affordable Care Act of 2010 has modified the definition of Eligible Dependents to include adult children who have not attained age 27 by the end of the tax year.

The term "adult child" will include the employee's son, daughter, stepson, stepdaughter, foster son, foster daughter as well as an adult child adopted by or placed for adoption with the employee.

The age limits, residency, support and marital status requirements that would normally apply to the "Qualifying Child" and "Qualifying Relative" definitions shown on page 1 will not apply in the case of an Adult Child.

DEPENDENTS OF DIVORCED PARENTS

The IRS released procedures for the "claiming" of dependents between divorced parents in 2008. The definition is used to determine whether a child is a dependent for purposes of eligibility for health and fringe benefits, medical expense reimbursements and coverage under employer sponsored health plans.

For these benefits, both parents may claim the child as a dependent if:

- 1) the child qualifies as a dependent of one of the parents;
- 2) the parents (both parents together) provide more than ½ of the child's support for the calendar year;
- 3) the child is in the custody of one or both parents for more than ½ of the calendar year; and,
- 4) the parents are divorced, legally separated under a decree of separate maintenance, separated under a written separation agreement, or live apart at all times during the last six (6) months of the calendar year.

DOMESTIC PARTNERS

Pre-tax medical benefits, including health insurance premiums paid on a pre-tax basis and the reimbursement of expenses from the Medical Flex Spending Account (Med-FSA) and Health Reimbursement Arrangements (HRA), may only be provided to Domestic Partners who are a "Qualifying Relative" for the tax year.

If there is a mid-year change in the living or support situation of the Domestic Partner, the employer should immediately cease allowing pre-tax coverage for the Domestic Partner.

If the Domestic Partner does not meet the criteria to be a "Qualifying Relative" then the expenses of the Domestic Partner are not eligible and the health insurance premiums for the Domestic Partner coverage should be paid on an after-tax basis.

Please note that this discussion is regarding the Federal tax-status of Domestic Partners. Various states, California included, have very different requirements and definitions. However, to be considered eligible for reimbursement of expenses the HRA and Flex Plan and for preferential Federal tax treatment of health insurance premiums, it is the Federal Laws that counts, not State law.

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