SISC
Self-Insured Schools of California
Schools Helping Schools

November 19, 2020

TO: Superintendent and Key Contact Personnel of SISC III Member Districts

FROM: SISC III – Health Benefits

SUBJECT: Benefits Provided to Domestic Partners as Taxable Income

The IRS has issued a ruling indicating the fair market value of domestic partner benefits is to be included in the gross income of an employee as compensation. Based on this, SISC recommends districts report the fair market value of benefits provided to domestic partners as taxable income to employees. We also recommend that districts compute and report the taxable income to employees based on the incremental difference between tiered rates. If your district pays a composite rate for employees, you may use the formula on the attached schedule to compute and report the taxable income to employees.

Other points:

1. For domestic partners registered with the State of California, the benefit is excluded from State taxation.

2. The process and approach to determine the fair market value of a benefit can be applied to any and all plans. This includes medical, dental and vision plans.

3. The taxable income generated by the domestic partner benefit constitutes "wages"…and is subject to income tax withholding. The income is also considered wages for FICA and FUTA.

4. If a district pays for a retiree's health insurance and also pays for coverage for the retiree's domestic partner, then the approach indicates there is taxable income to the retiree. IRS tax regulations provide that a recipient of fringe benefits does not need to be an employee, "but may be a partner, director, or an independent contractor," and by inference may be a retiree. We recommend reporting the taxable income to a retiree on a 1099.

5. For Federal law purposes, taxation of the benefits paid for domestic partners differs from California law. The benefit is taxable to the employee if the domestic partner is not a dependent of the employee. So, since California employers with group health insurance plans are required to cover domestic partners, it will be necessary to report additional income to some who receive the benefit.

As noted above, Regulation 1.106-1 also allows dependent health insurance to be excluded from income. So, it is possible for a domestic partner to qualify for federal exclusion if he/she is a dependent. Registering as a domestic partner with the California Secretary of State does not qualify the partner as a dependent.

The information contained in this memorandum is advisory only. We encourage you to consult with your own legal counsel as to how your district chooses to approach this issue.

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A Joint Powers Authority administered by the Kern County Superintendent of Schools Office, Mary C. Barlow, Superintendent

Domestic Partner Monthly Fair Market Value For Composite Rated Groups

Taxable Benefit (If Moving from Single to Two-Party Coverage)

The factor to convert a composite rate to the fair market value is: 0.451

Taxable Benefit (If Moving From Two-Party to Family Coverage)

The factor to convert a composite rate to the fair market value is: 0.365

Taxable Benefit (If Moving from Single to Family Coverage)

The factor to convert a composite rate to the fair market value is: 0.816

EXAMPLE Using a Composite Rate of $1,350 a Month:

When factoring for your district, use your actual composite rates.

The factors are the same for all composite rated coverages… medical, dental, vision, etc.

Composite Rate:		$1,350.00	
Factor to Convert to the FMV for Single to Two-Party:	**X**	**0.451**	
FMV for Single to Two-Party		$608.85	(Taxable Benefit)

Composite Rate:		$1,350.00	
Factor to Convert to the FMV for Two-Party to Family:	**X**	**0.365**	
FMV for Two-Party to Family:		$492.75	(Taxable Benefit)

Composite Rate:		$1,350.00	
Factor to Convert to the FMV for Single to Family:	**X**	**0.816**	
FMV for Single to Family		$1,101.60	(Taxable Benefit)