

The following paragraphs were published by the IRS and discuss this issue, provide a relevant example and reference further guidance in IRS Publication 969.

Employer-Provided Accident and Health Coverage for Persons Who Do Not Qualify as a Spouse or Dependent

The value of an employer-provided accident and health plan covering persons other than the employee, employee's spouse or employee's dependents as described above is includable in the employee's gross income. In addition, amounts received through an employer-provided accident and health plan for persons other than the employee, employee's spouse or employee's dependents are includable in the employee's gross income. **Significantly, if an employer's accident and health plan covers persons other than the employee, the employee's spouse or employee's dependents, and the employer-provided accident and health coverage has been excluded from the employee's gross income, the plan is not an accident and health plan, and none of the amounts paid under the plan to any employee, including amounts paid for medical expenses, are excludable from any employee's gross income.** However, if the employer's accident and health plan covers a person who is not a spouse or dependent and the employee pays for that coverage with after-tax dollars, amounts received for medical expenses are excluded from the employee's gross income under § 104(a)(3). Similarly, if the employer pays for accident and health coverage for a person who is not a spouse or dependent, and includes the fair market value of the accident and health coverage in the employee's gross income, amounts received for medical expenses are excluded from the employee's gross income under § 104(a)(3). The fair market value of the accident and health coverage for these individuals must be reported on the employee's Form W-2 as taxable wages.

Example

A newly-enacted state law requires that all employer-provided accident and health plans cover employees' "dependents" who are age 25 and under. In 2008, an employer's accident and health plan covers the son of an employee. The son is age 24 and does not qualify as the employee's dependent for Federal tax purposes under § 152. The fair market value of the son's coverage is \$5,000 per year. The employee's Form W-2 for 2008 must include \$5,000 as taxable wages.

For additional guidance on accident and health plans, you can refer to Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.