



## Domestic Partner Benefits Information

This notice contains important information on benefits for domestic partners. The Internal Revenue Service has ruled that the actual cost of domestic partner benefit is a taxable income. To arrive at the actual cost of this benefit, the CSU has examined the premium structure for health, dental, and vision benefits. For health and dental, the CSU has the following structure:

- Employee only
- Employee plus one dependent
- Employee plus two or more dependents

For these two benefits, the taxable income of the domestic partner benefit will be the cost difference between the employee only and the employee plus one dependent premium rate. This approach recognizes the value of adding one dependent, using a single employee as the base line. The State Controller's Office will use a flat tax rate of 25% federal, 6.2% Social Security, and 1.45% Medicare to withhold taxes on the value of the benefits.

The monthly "imputed value" of the domestic partner benefit/same sex marriage is computed as follows:

- **Health Benefit Taxable Income:** An employee enrolled in Kaiser for self only at the one-party rate adds his/her domestic partner. The monthly taxable value of the benefit is the two-party premium rate less the one-party premium rate ( $\$943.74 - \$471.87 = \$471.87$ ). Each month, the employee will have an additional \$471.87 in taxable income.
- **Dental Benefit Taxable Income:** An employee enrolled in Delta Dental PPO Enhanced Level II for self only at the one-party rate adds his/her domestic partner. The monthly taxable value of the benefit is the two-party premium rate less the one-party premium rate ( $\$82.64 - \$43.80 = \$38.84$ ). Each month, the employee will have an additional \$38.84 in taxable income.
- **Total monthly taxable income:**  $\$471.87$  health +  $\$38.84$  dental =  $\$510.71$

The monthly tax liability is computed on the total taxable income of \$510.71 as follows:

Federal Tax	$\$510.71 \times 25\%$	\$127.68
Social Security Tax, if applicable	$\$510.71 \times 6.2\%$	\$ 31.66
Medicare Tax, if applicable	$\$510.71 \times 1.45\%$	\$ 7.41

For vision, the cost is a flat rate, regardless of the number of dependents. Adding domestic partners to the program will have a negligible impact on the premium. As a result, there is no taxable income for adding a domestic partner to an employee's vision insurance plan.

Effective January 1, 2002, the State is no longer taxing the employee for the imputed value of domestic partner health-related benefits as long as the domestic partnership is registered with the California Secretary of State.

## **Taxation of Domestic Partner Benefit**

The State Controller's Office will implement a "look back" method for tax withholding on the domestic partner benefit beginning with the previous month. Key points are:

- The State Controller's Office will "look back" at the prior month to determine if an employee has added a domestic partner in that month. The domestic partner taxable income from the prior month will be included in the current month and appropriate taxes will be withheld. For example, the May "look back" will be to April.
- The State Controller's Office will also "look back" and compute outstanding tax liability for Social Security and Medicare for any previous months, if applicable. For the May master payroll (paid May 31), the State Controller's Office will withhold applicable Social Security and Medicare monthly taxes for April, plus any prior pay period liability for any previous months.
- For example, federal taxes for April will be withheld from the May master payroll warrant. Taxable income will be reported on your annual W-2.

We hope you find this information helpful. If you have any questions, please contact The Center for Human Resources, Benefits Office, at X41142.