Calculating Taxable Premiums for Over Age Dependents

Below are two examples of how to calculate the taxable premium for an Over Age Dependent depending on the employee contribution to their health coverage.

EXAMPLE 1

The employee is enrolled in the family $1500 deductible plan, which has a monthly premium of $870. The bank subsidizes 75% of the premium, so the employee's contribution is 25% or $217.50 per month. The single premium for the $1500 deductible plan is $340, which is used as the "fair market value" of the coverage for the over age dependent. Because the employee contribution is less than the fair market value, the employee's contribution must be withheld after tax. To determine the additional amount the employee must pay tax on, take the fair market value ($340) and subtract the employee's after tax contribution ($217.50). The difference ($122.50) is the amount that must be added to the employee's wages each month as a taxable fringe benefit.

$340.00 (Single premium or Fair Market Value)
– $217.50 (Employee Contribution withheld after tax)
$122.50 (additional taxable fringe benefit per month)

EXAMPLE 2

The employee is enrolled in the family $1500 deductible plan, which has a monthly premium of $870. The employee's contribution is the difference between the family premium ($870) and single premium ($340) or $530 per month. The single premium for the $1500 deductible plan is $340, which is used as the "fair market value" of the coverage for the over age dependent. Because the employee contribution is more than the fair market value, only the amount up to the fair market value of the coverage must be withheld after tax. Any additional amount may be withheld on a pre-tax basis.

$340.00 (Single premium or Fair Market Value)
– $530.00 (Employee Contribution)
– $190.00 (Portion of employee contribution that can be withheld pre-tax)

CALCULATING YOUR TAXABLE PREMIUM

Single Premium of the plan employee is enrolled in:
(if your bank has a 105 plan, this should be the single premium of the "paid down to" plan- e.g. the purchased plan is $1500 deductible, but the bank pays down to $500 deductible. This should be the single premium of the $500 deductible plan) $________________

—

Employee's monthly contribution $________________

DIFFERENCE* $ ________________

*If the "DIFFERENCE" is **positive**, the *Employee monthly contribution* is paid after tax and the *difference* is the amount that must be added to the employee's wages each month as a taxable fringe benefit.

If the "DIFFERENCE" is **negative**, the *Single Premium* amount must be withheld after tax, and the *difference* can be withheld pre-tax.