

eBenefits Alert: Year End Benefits News 2010

December 30, 2010

Fully Insured Plans and Nondiscrimination Testing

Employers sponsoring new or non-grandfathered fully insured health care plans have been given a reprieve. IRS Notice 2011-1 provides that those plans will not be subject to nondiscrimination testing effective January 1, 2011. This relief is good news for employers sponsoring fully insured plans, as those plans have not historically been required to perform nondiscrimination tests, and that added requirement under Health Care Reform came with a rather hefty penalty for plans that failed the testing.

Unlike self funded plans that failed nondiscrimination testing and therefore lost tax benefits for highly compensated employees, fully insured plans would be subject to a penalty of \$100 per day per individual excise tax along with civil monetary or civil action penalties and requirements.

The IRS Notice further provides that the requirement will be suspended until after regulations are issued, which will allow employers more adequate time to prepare for complying with the new rules.

Minnesota Tax on Dependent Coverage

The failure of the Minnesota Legislature to act regarding taxation of federally required dependent coverage has resulted in a tax anomaly. The fair market value of health care benefits provided for adult non-dependent children is currently taxable in Minnesota. As a result, the full value of the benefits (determined using the single COBRA rate less the 2 percent administrative fee) provided to adult non-dependent children will need to be added to Minnesota taxable wages.

In Minnesota, if a covered adult child is unmarried and under age 25, the health care coverage received is non-taxable under both federal and Minnesota state law.

If the Minnesota Legislature does not act to correct this situation retroactively, 2010 W-2 reporting will need to include those amounts in Box 16.

2011 Benefit Limitations

Recently, the IRS issued updated information for the 2011 Retirement and Welfare Plan Limits, by including the limits for transportation benefits. Most of the amounts for 2011 are the same as those for 2010, and the transportation plan special limit adjustment has been extended until 2012.

Please use this [2011 Benefit COLA](#) link to obtain the 2011 Limits.

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