

Hot Off The Press

IMPLEMENTATION OF WORKING FAMILIES TAX RELIEF ACT OF 2004 (WFTRA)

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Background

Employees will see the change on their first paycheck in January. They can change the designation of their dependent children on HRConnect, or they can use a dependent enrollment form/certification obtained from their Human Resource office. The criteria for designating a dependent child as qualified are:

- The child will be 18 or younger as of December 31 of the calendar year.
- The child is older than 18 but younger than 24 as of December 31 of the calendar year and is a full-time student. He/She must provide less than half of his/her own financial support. You or someone else provides the rest.
- The child is older than 18 as of December 31 of the calendar year, and not a student, or if the child is age 24 and a full-time student, he/she must receive more than half of his/her financial support from you.

Reminders about updating children's qualify flags will be sent periodically from the System Human Resource office. It is especially important in December to have children's qualify flags updated for looking towards the following tax year.

Implementation

Since the WFTRA applies only to health coverage, when the term "coverage" is used in this document it is referring to medical, dental, and vision. Any coverage with even one qualifying dependent qualifies the entire coverage since premium amount is not based on number of children covered. AD&D coverage was not included in the implementation since a family is covered as a whole with no way to distinguish between different types of dependents.

The criteria listed in the "Background" section (above) are based on dependents' ages as of the end of the calendar year. For the months January through November, the age is calculated for the end of the current calendar year. During December (after November month-end processing), their age is based on the coming calendar year since the taxes paid apply to the next tax year.

For every child 19 years of age or over with coverage, the employee decides whether or not that child is a qualifying dependent, according to the criteria above. Entered either through the New Employee System, HRConnect, or via their insurance processor, the dependent qualify flag is set to either **Y** or **N**. Since different dependents may be on different types of coverage, we consider each type separately. The children on each type of coverage are evaluated and if even one child qualifies, then the entire premium for that coverage type qualifies.

The taxable portion of premium paid due to having all non-qualifying children is the difference between the amount paid for employee/employee-spouse coverage and the amount paid for that coverage with children. The result is the employee's taxable amount and the balance is the pretax amount. A similar computation is done for the SGIP taxable amounts. (We have called this an emolument amount and implemented it as such.)

The fields added to the Personnel file to accomplish the implementation of WFTRA are: a qualify flag for each dependent; the employee qualify flag; pretax and emolument amounts for medical, dental and vision coverage. The valid values for each of these fields are as follows:

The qualify flag for each dependent is **Y**, **N** or blank. The flag applies only to children with coverage who are, or will be, 19 years of age and older as of December 31st of the calendar year being processed. All others have a blank flag, since the premium portion for anyone younger than 19 automatically qualifies. Disabled children 19 years of age and older with coverage always have a **Y** qualify flag. **Y** indicates the portion of the premium paid for this child does qualify under the criteria listed above. **N** indicates it does not qualify. The flag does not apply to a spouse and is left blank. Implemented on December 20, 2005, the qualify flag was set to **N** for those that did not choose a status for a dependent child 19 or older as of December 31, 2006. The dependent qualify flag can be viewed and updated on Screen 115 - Dependent Data screen.

The employee qualify flag may be **Y** or **N**. **This value is updated as part of the weekly insurance processing, INSUR13X on the BPP Production schedule. (rev. 2/2008)** The value assigned depends upon the values of the qualify flags for the children covered under each particular type of insurance. If all insurance types qualify the employee qualify flag is set to **Y**, indicating all coverage types qualify for pretax status and no emolument amount needs to be calculated for the employer payment portion. If any one of the coverage types has all non-qualifying children, the employee qualify flag is set to **N**, indicating all coverage types may not be considered in the pretax amount and further calculation is necessary. The employee qualify flag can be viewed and edited via Screen 106 - Benefit Maintenance screen and viewed on Screen 116 - Benefit History screen.

There is a separate pretax and emolument amount for each of the coverage types (medical, dental and vision). For employees that have all children qualifying, the pretax amount is equal to the employee deduction amount and the emolument amount is zero. Those waiving the pretax privilege have no employee deduction pretax amount and the taxable portion of SGIP is calculated as it is for those with the pretax option.

Specific Changes to BPP Screens

Dependent Qualify Flag on Screen 115 - Dependent Data

The qualify flag on Screen 115 is labeled **Qu** and is next to the **Rel** flag. The qualify flag is used to determine which dependents' coverage qualifies for pre-tax insurance premiums. The qualify flag is required for dependents with active or future insurance coverage who are between the ages of 18 and 24, as of December 31 of the calendar year. It is blank for spouses and dependents under age 18. Disabled dependents over the age of 18 automatically qualify and their flag is automatically set to **Y** when the dependent is entered on screen 115. The error message #0353 "Dependent over age 18 must have qualify flag Y or N" appears when the qualify flag is required but not filled in.

Employee Qualify Flag on Screen 106 - Benefit Maintenance

The **PreTaxQual** flag is shown on Screen 106 directly below the **PreTaxWaive** flag. It was added to this screen so the processor can easily see which employees are subject to extra tax due to non qualifying dependents. Otherwise, the processor would have to look at the dependents on Screen 115 and/or look at the 120, 121, and 129 screens to determine who is affected. Based on children's qualify flags from Screen 115, the **PreTaxQual** flag is assigned whenever the screen is entered in correction mode. Appropriate values are **Y** and **N**. **Y** indicates the employee's deductions for medical, dental and vision qualify for pretax. **N** indicates that at least one of the individual's deductions for medical, dental, or vision has a portion that is taxable due to a non-qualifying dependent on that particular coverage. When the screen is entered in correction mode, the pretax and emolument amounts are recalculated and updated.

Employee Qualify Flag Added on Screen 116 - Benefit History

The employee qualify flag is shown on the Benefit History screen (116) directly next to the **Pre:** flag. Due to overcrowding, there is no label for the qualify flag. Benefit history is updated whenever the employee qualify flag changes.

Pretax and Emolument Amounts on Expanded Coverage Screens 120, 121, and 129

Pretax and emolument amounts, if any, are shown next to the employee deduction and employer payment amounts on Screens 120, 121, and 129. These are the amounts now used in the Payroll calculation program, rather than the employee deduction and employer payment amounts. The pretax and emolument amounts are recalculated as part of every payroll calculation process when there are changes to the dependent qualify flags or insurance coverage.

Changes to Payroll Calculation process

Immediately prior to the payroll calculation process, an emolument source will be generated for each employee with a record in the Permission to Pay file who has an **N** in their **PreTaxQual** flag for any of the following insurances:

| <u>Insurance</u> | <u>Emol Cd</u> |
|------------------|----------------|
| Medical | 46 |
| Dental | 47 |
| Vision | 48 |

An employee will have one emolument source generated for each type of insurance they have. While there are three types of insurance involved, an employee will never have more than two emolument sources built, since the employer payment portion will be accounted for in full for Medical, or Dental and Vision together.

These emoluments will flow through the payroll calculation process like all other emoluments and be added to the covered earnings and included in all tax calculations. The emolument codes are listed above beside the insurance type.

If the employee does not have enough earnings to cover the insurance deduction, an error will appear on the Payroll Preparation Errors Report indicating the emolument amount will need to be backed out. The emolument amount will not be backed out automatically in this case.

If any manual adjustments are done for an employee with medical, dental or vision premiums, and the employer payment is affected, the emolument amount for the insurance being adjusted will need to be manually calculated and entered also.

