Vermont Auto Dealers Association (VADA)

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Domestic Partner

Domestic Partner (DP) Coverage

As of January 1, 2024 Dealerships will be able to offer Domestic Partner Coverage

- The Domestic Partner coverage will be available to all dealerships and the decision to offer DP coverage or not will be a decision made by each dealership. It will not be a requirement to offer the coverage.
- Proof of domestic partnership existence will be accomplished via the BlueCross Blueshield of Vermont Statement of Domestic Partnership.
  - The Statement of Domestic Partnership must be notarize by a Notary Public signature and stamp
  - Proof of common residence may be required
  - Proof of financial interdependence may be required

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What is Domestic Partnership?

A domestic partnership generally refers to two adults, unrelated by blood and neither of whom is married, who are in a committed relationship and assume responsible for each other's financial and emotional needs.

In order to establish domestic partnership coverage under the VADA health plan, employees and their domestic partner must execute the BCBS VT Statement of Domestic Partnership.

Is special tax reporting required for domestic partner health coverage?

In most cases, yes.

Although group health coverage provided to the employee, spouse and children is tax-free, the value of any employer paid coverage for domestic partner is taxable

The employer must report the fair market value of the coverage, minus any after tax contributions paid by the employee as **imputed income on the employee's form W-2 for federal and state/local tax purposes**

If the domestic partner is not an employee's tax dependent under Code Section 105(b), the value of the domestic partner's health coverage will be treated as income, reported on the employee's W-2, and subject to withholding taxes, including Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA)

Premiums Example

Employee only:

Total cost $500

Employee pays $50

Employer pays $450

Employee & DP

Total cost $1,200

Employee pays $200

Employer pays $1,000

Sara elects coverage for herself and her domestic partner who is not her tax dependent. Employer contributions towards the cost of the domestic partner coverage has tax implications which must be addressed in one of two ways.

1. Sara can pay the employee-only portion of the premium ($50) with pre-tax dollars and pay the portion attribute to the DP ($200 - $50 = $150) with post tax dollars. Sara will have $4,200 ($500 - $150 x 12(reported on her W-2 as gross income subject to income tax withholdings including FICA & FUTA
2. Sara can pay the employee & DP monthly contribution of $200 with pre-tax dollars and the employer imputed the fair market value of the DP's coverage into the employee's gross income.

There is no specific method provided nor endorsed by the Code for calculating the fair market value on DP health coverage.

Account Based Plans and Domestic Partners

Employees are unable to spend money from account-based plans on their domestic partner unless their domestic partner is a federal tax dependent.

Account based plan	Who is eligible
Flexible Spending Account	The eligible medical expenses of those individuals listed in code section105(b), the employee, spouse, children and tax dependents
Health Reimbursement Arrangement	The eligible medical expenses of those individuals listed in code section105(b), the employee, spouse, children and tax dependents
Health Savings Account	The eligible medical expenses of the employee, spouse, and tax dependents as defined by S.223(d)(2)(A)

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Mid-Year election changed due to beginning or ending a domestic partnership

•Special enrollment rules under the Health Insurance Portability and Accountability Act (HIPAA) allow employees to add coverage midyear for a new spouse, but not for a domestic partner (since no marriage has occurred). On the other hand, the HIPAA rule for a midyear enrollment in the event a dependent losing his or her coverage under another plan does apply to domestic partners (if eligible for the employer's plan).

•Cafeteria plans may allow midyear changes in accordance with IRS regulations for permitted election changes. Although not required, employers that extend health plan eligibility to domestic partners also often provide for midyear enrollment changes under their cafeteria plans.

•Beware of discrepancies between the group health insurance policy and the cafeteria plan document. Carriers are required to include the mandatory HIPAA special enrollment rules in group policies, but they often omit the optional cafeteria plan provisions. Always check all documents and policies before allowing an employee to make a midyear change.

Domestic Partners and COBRA

Federal law defines COBRA qualified beneficiaries as the employee (or former employee), spouse, and children if covered under the group health plan at the time of the qualifying event. A domestic partner, therefore, is not a COBRA qualified beneficiary in his or her own right. The employee, however, may elect COBRA for his or her domestic partner, if the group health plan extends eligibility to domestic partners, since COBRA beneficiaries have the same enrollment options as active employees.

Separately, many states have enacted coverage continuation provisions under their state insurance laws. These often are referred to as "mini-COBRA" laws. Certain states that provide protections for domestic partnerships or civil unions may also extend their mini-COBRA provisions. California is one example; Cal-COBRA (the state's mini-COBRA law) extends to registered domestic partners (RDPs) as defined by state law. Mini-COBRA provisions, if any, will be described in the carrier's group policy.

In summary, employers that choose to extend group health plan eligibility to domestic partners, or who purchase group policies that include state-mandated domestic partner provisions, are encouraged to work with carriers, benefit advisors, and payroll vendors to develop and administer appropriate procedures. All plan materials should contain consistent definitions of eligibility, communications should encourage employees to consult their tax advisors regarding federal and state tax laws, and payroll vendors should ensure accurate W-2 reporting.

Next Steps

1. Reach out to your payroll vendor and discuss domestic partner capabilities with their payroll system including the ability to impute income
2. Reach out to your third-party administrator (TPA), if applicable to ensure they have the system capability to “carve out the DP” so that claims are not paid
3. If the dealership makes the decision to add domestic partnerships as an option on the health plan, update personnel policies/employee handbook to fully define your domestic partner policy.

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