Imputed Income Example

What is imputed income and why does it matter?

Because domestic partnerships are not recognized by the IRS and health coverage is generally paid for on a pre-tax basis, the IRS requires that the fair market value of health coverage extended to a domestic partner who is not a tax dependent is included in the employee's gross income (less any after-tax payments by the employee). If an employee is providing health coverage for a domestic partner who is the employee's tax dependent under IRS rules, the employee will not have any imputed income. However, if the employee is providing health coverage to a domestic partner who is not a tax dependent under IRS rules, the fair market value of the coverage is considered imputed income, and must be reported as taxable income on the employee's bi-weekly paycheck. This is not actual income, but it is included in the employee's gross income in order to assess tax withholdings. If an employee has imputed income due to covering their non-dependent domestic partner, they will have a higher amount of their pay withheld in taxes than if they did not cover their non-dependent domestic partner.

How do I calculate imputed income?

Example scenario: Jane Doe is a full-time, 26-pay period State employee. She is enrolled in family coverage for medical (Anchor Plus Plan), dental (Anchor Dental Plus), and vision (Anchor Vision) to cover herself and her domestic partner, and she is in the 15% co-share bracket.

The following is done to calculate her bi-weekly imputed income:

Step 1: Calculate employee's contribution to the health coverage cost for their domestic partner

Employee's contribution is calculated as

(Cost of family coverage – cost of individual coverage) x (co-share rate)

The bi-weekly cost under Jane's chosen plans for individual and family coverages are:

	Individual	**Family**
Medical (Anchor Plus Plan)	$295.07	$827.21
Dental (Anchor Dental Plus)	$16.56	$42.90
Vision (Anchor Vision)	$2.20	$6.06

Note: Based on the 2019 Health Plan working rates.

Since Jane is in the 15% co-share bracket, her contributions are calculated as:

Medical ($827.21 - $295.07) x 0.15 = $79.82

Dental	(\$42.90 - \$16.56) x 0.15 = \$3.95
Vision	(\$6.06 - \$2.20) x 0.15 = \$0.58

Because Jane elected medical, dental, and vision coverage, her total contribution is \$79.82 + \$3.95 + \$0.58 = **\$84.35**. This is the amount Jane is effectively paying for her domestic partner's health coverage on a bi-weekly basis.

Step 2: Calculate the State's contribution (i.e., imputed income)

To obtain imputed income, subtract Jane's total contribution (\$84.35 from Step 1) from the bi-weekly total cost for an individual coverage (medical + dental + vision in her case):

Bi-weekly total cost	\$295.07 + \$16.56 + \$2.20 = \$313.83
Imputed income	\$313.83 – \$84.35 = **\$229.48**

\$229.48 is Jane's imputed income on a bi-weekly basis. Assuming all factors stay the same for 26 pay periods, Jane's annual imputed income would be \$5,966.48 (\$229.48 x 26 pay periods) and this amount would be added to Jane's gross income on her W-2.