

WORKING FAMILIES TAX RELIEF ACT OF 2004

(Effective Date: 1/1/2005)

UNIFORM DEFINITION OF DEPENDENT

The Uniform Definition of Dependent provisions of the Working Families Tax Relief Act of 2004 attempted to reconcile inconsistencies in how the term “dependent” was defined in various sections of the Internal Revenue Code (IRC). As it relates to employee health benefit plans, IRC §105(b) and §152 were amended to apply a new definition of what expenses are excludable from an employee’s gross income when incurred by a dependent.

In general, the changes have no impact on an employee health benefit plan. The Act does not require a plan to apply a specific definition of dependent to the terms of the plan and when read together the changes to IRC §105(b) and §152 result in substantially the same requirements that were previously in place, as outlined below.

Current Definition	Revised Definition (Effective 1/1/2005)
<p>The term dependent means any of the following individuals, provided they receive over 50% support during the year from the employee:</p> <ul style="list-style-type: none"> -a son or daughter, or descendant thereof; -a stepson or stepdaughter; -a brother, sister, stepbrother or stepsister; -the father or mother or an ancestor of either; -a stepfather or stepmother; -a nephew or niece; -an uncle or aunt; -a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law; -an individual that resides with and is a member of the employee’s household. 	<p>The term dependent means a qualifying child or a qualifying relative, as defined below:</p> <p>Qualifying Child. A child, descendant of a child, or a brother, sister, stepbrother or stepsister or descendant thereof that:</p> <ul style="list-style-type: none"> -has the same principal residence as the employee for over 50% of the year; and -receives over 50% support from the employee; and -is less than 19 years old or 24 years if a student. <p>Qualifying Relative. Any of the following individuals, provided they receive over 50% support during the year from the employee and are not a qualifying child of the employee or any other taxpayer:</p> <ul style="list-style-type: none"> -a son or daughter, or descendant thereof; -a stepson or stepdaughter; -a brother, sister, stepbrother or stepsister; -the father or mother or an ancestor of either; -a stepfather or stepmother; -a nephew or niece; -an uncle or aunt; -a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law; -an individual that resides with and is a member of the employee’s household.

The revised definition does contain a provision requiring a Qualifying Relative to have gross income of less than the exemption amount stated in IRC §151(d), \$3,100.00 for 2004. However, this requirement is waived under IRC §105(b) for purposes of determining if amounts paid under an employee health benefit plan are excluded from the employee’s gross income.