



Tax-Free Employer-Provided Health Coverage Now Available for Children under Age 27

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WASHINGTON — As a result of changes made by the recently enacted Affordable Care Act, health coverage provided for an employee's children under 27 years of age is now generally tax-free to the employee, effective March 30, 2010.

The Internal Revenue Service announced today that these changes immediately allow employers with cafeteria plans — plans that allow employees to choose from a menu of tax-free benefit options and cash or taxable benefits — to permit employees to begin making pre-tax contributions to pay for this expanded benefit.

IRS [Notice 2010-38](#) explains these changes and provides further guidance to employers, employees, health insurers and other interested taxpayers.

“These changes give employers a unique opportunity to offer a worthwhile benefit to their employees,” IRS Commissioner Doug Shulman said. “We want to make it as easy as possible for employers to quickly implement this change and extend health coverage on a tax-favored basis to older children of their employees.”

This expanded health care tax benefit applies to various workplace and retiree health plans. It also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Employees who have children who will not have reached age 27 by the end of the year are eligible for the new tax benefit from March 30, 2010, forward, if the children are already covered under the employer's plan or are added to the employer's plan at any time. For this purpose, a child includes a son, daughter, stepchild, adopted child or eligible foster child. This new age 27 standard replaces the lower age limits that applied under prior tax law, as well as the requirement that a child generally qualify as a dependent for tax purposes.

The notice says that employers with cafeteria plans may permit employees to immediately make pre-tax salary reduction contributions to provide coverage for children under age 27, even if the cafeteria plan has not yet been amended to cover these individuals. Plan sponsors then have until the end of 2010 to amend their cafeteria plan language to incorporate this change.

In addition to changing the tax rules as described above, the Affordable Care Act also requires plans that provide dependent coverage of children to continue to make the coverage available for an adult child until the child turns age 26. The extended coverage must be provided not later than plan years beginning on or after Sept. 23, 2010. The favorable tax treatment described in the notice applies to that extended coverage.

Information on [other health care provisions](#) can be found on this website, IRS.gov.

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