

Glossary – D

Dependent Care Account – Such account is used in conjunction with a DCAP and is used for employees to pay for dependent care expenses without taxes being withheld. Employees must choose to use the federal child care tax credit or the company dependent care plan. It provides \$5,000 in benefits compared to the federal child care tax credit which is \$2,400 for one child and \$4,800 for two children. Such plan permits employers and employees to save taxes.

Discrimination Testing Overview – The essence of the testing process is this: Does the prohibited class have an unfair advantage in (a) becoming plan participants (eligibility test), (b) gaining benefits (benefits and contributions test), or (c) actually using the benefits (utilization or concentration test).

Domestic Partner – Numerous Private Letter Rulings of the IRS make clear its position regarding the tax status of domestic partners: (a) if a partner does not qualify as a spouse or dependent (as defined by the IRC), the exclusion from gross income does not apply to health coverage; also, the excess of the coverage's fair market value over the amount paid by the employee is included in the employee's gross income, (b) partners do not qualify as spouses of employees unless they are recognized under state law, (c) coverage of a domestic partner does not affect the tax excludability of the cost of health coverage for employees, spouses, or dependents, and (d) the gross income of an employee and domestic partner excludes any amount received by, or on behalf of, the domestic partner as payment or reimbursement of benefits if the coverage was paid for by employee contributions or the coverage's fair market value was included in the employee's gross income; non-taxability of participant or employer contributions to a health care plan is unaffected by the fact that such plan has a domestic partner as a covered dependent. Notwithstanding ordinances of other government entities recognizing domestic partners, the IRS is firm that only the IRC may be used as a guide for tax issues.