

**NEW JERSEY DIVISION OF TAXATION  
REGULATORY SERVICES BRANCH  
TECHNICAL ADVISORY MEMORANDUM**

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**TAM - 14**

**ISSUED: 4-20-11**

**TAX: GROSS INCOME TAX**

**TOPIC: GROSS INCOME TAX NOTICE: FEDERAL AFFORDABLE  
CARE ACT, DEPENDENT COVERAGE FOR ADULT CHILD**

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The Federal Affordable Care Act requires plans and issuers that offer dependent coverage to make the coverage available for adult children while providing favorable income tax treatment. For Federal Income Tax purposes, the value of any employer-provided accident/health plan coverage or employer provided reimbursements made to an employee for medical care for an employee's child who, has not yet attained the age of 27 as of the end of the taxable year, is excluded from the employee's income. This exclusion applies to IRC section 125 cafeteria plans as well.

Historically, New Jersey has administered the New Jersey Gross Income Tax to conform to the Federal Income Tax treatment for much of this type of employer-provided coverage. Therefore, for New Jersey Gross Income Tax purposes, the value of any employer-provided accident/health plan coverage or reimbursements for an employee's child that is excluded from the employee's Federal Income should also be excluded from the employee's New Jersey Gross Income, regardless of the age of the child, under the Division of Taxation's long-standing interpretation of the tax laws.

However, with regard to employee paid coverage deemed under federal law to be employer coverage and employer provided reimbursements (i.e.; employer-sponsored flexible spending accounts) New Jersey does not conform to the Federal Income Tax treatment. These amounts are generally taxable as wages for New Jersey Gross Income Tax purposes. In accordance with N.J.S.A. 54A:6-24 and Technical Bulletin 39 at <http://www.state.nj.us/treasury/taxation/pdf/pubs/tb/tb39r.pdf>, contributions to cafeteria or flexible benefits plans provided under Section 125 of the Internal Revenue Code are taxable as wages for New Jersey purposes.

Additionally, a deduction from gross income is provided on the New Jersey Gross Income Tax return for medical expenses. Medical expenses generally include nonreimbursed payments for insurance covering medical care. Medical expenses allowed for Federal Income Tax purposes are usually allowed for New Jersey Gross Income Tax purposes, but the deduction is limited to expenses for the "taxpayer, taxpayer's spouse,

and taxpayer's dependents." Although the Federal Affordable Care Act applies to adult, non-dependent children as well as dependent children, the New Jersey medical expense deduction is limited to dependents; therefore, taxpayers can only take the medical expense deduction on the New Jersey return if their adult child is considered a qualified dependent.