TAX QUESTIONS ON H.196

- How are benefits taxed to employee when paid out?
    - Taxable if considered unemployment compensation. 26 U.S.C. § 85.
    - Non-taxable if considered disability based compensation. 26 U.S.C. § 104.

- How are employee contributions taxed?
    - Treated as a payment of a state income tax. See Rev. Rul. 81-191; IRS Memorandum 200630017.
    - Deductible as an itemized deduction on federal taxes.
    - But not deductible on state level, because Vermont does not allow itemized deduction for state taxes.
    - Benefit for non-itemizers is only taxed on amounts in excess of the employee's contribution; benefit for itemizers is taxed on all benefits (while allowing the deduction).
    - Would employee contribution affect income sensitivity?
        - Income sensitivity starts with federal adjusted gross income, 32 V.S.A. § 6061(5), and there are no applicable exclusions.
        - Therefore, employee contributions would likely count as income for purposes of calculating income sensitivity.

- Tax treatment of a mandatory employer contribution?
    - Most likely treated as a deductible state tax for either unemployment compensation or disability based compensation. See Rev. Rul. 81-194.

- How would a voluntary employer contribution be taxed?
    - For a non-taxable disability based benefit, a voluntary employer contribution would likely be considered deductible to the employer as a business expense, and taxable to the employee, at least to the extent of the employer contribution. See Rev. Rul. 81-194.
    - For a taxable unemployment compensation based benefit, the payment would likely be considered deductible to the employer as a business expense, and taxable to the employee. See 26 U.S.C. § 85; Rev. Rul. 81-194.

- Does the employer or State pay employment taxes on benefits paid?
    - No. The State would most likely send out a 1099-G reporting the payment to the recipient, but there is no FICA or medicare taxes due on the payments.