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For Immediate Release

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Suhr Risk Services Legislative Update

Overage Dependent Care California Taxation UPDATE!

AB 36 brings California income and employment tax laws into alignment with federal tax law

Governor Jerry Brown signed AB 36 into law on April 7, 2011. This new law, retroactive to March 30, 2010, brings California income and employment tax laws into alignment with federal tax law, regarding group health coverage extended to employees' children up to age 26. Prior to passage of AB 36, California employers were required to track overage dependent coverage, calculate an imputed income value, and add that value to employees' taxable wages.

California employers who offered overage dependent coverage in 2010 and tracked imputed income will have to amend 2010 state payroll tax returns retroactive to the date the employer first permitted overage dependent coverage. Employers will have to identify how much imputed state income each employee received in 2010, and prepare amended W-2s (Forms W-2C) for employees.

California Employment Development Department (EDD) has just changed its payroll withholding returns and forms effective this year. The EDD has posted online guidance for employers on their website. It directs employers to use EDD Form DE 678 to report corrections of income reported on DE 6 quarterly withholding reports for 2010. Employers will still have deposited payroll taxes in excess of the corrected amount reported. Instructions for correcting excess deposits are found in the California Employer's Tax Guide for 2011.

The Franchise Tax Board has also updated its website with for employees who included overage dependents in their coverage last year. They are directed to file amended state

income tax returns (FTB Form 540X), once they receive their Forms W-2C omitting the imputed state income.

Please consult your tax advisors for additional guidance on compliance.

Take care,

Greg

Gregory W. Dobson
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Suhr Risk Services has been a presence in the Bay Area for over a century and has expertise in Property & Casualty, Workers' Compensation, Employee Benefits, Life & Estate and Personal Insurance. The primary niches for Suhr Risk Services include: Non-Profits, Specialty Construction, Grocers/Food Processing, Wholesale Suppliers, Equipment Rental Firms and Workers' Compensation.

We are trusted advisors to both local and national clients, as well as numerous trade associations, and advocates for policyholder rights before California insurance regulators. Suhr Risk Services has been featured in the Insurance Journal's Top Property and Casualty Agencies in the United States and has twice been voted one of the Bay Area's best places to work. Suhr Risk Services has been recently named a Best Practices agency by the Independent Insurance Agents and Brokers of America.

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