

SUMMARY OF TAX TREATMENT OF HEALTH COVERAGE PROVIDED FOR DOMESTIC PARTNERS AND THEIR CHILDREN

Coverage for Domestic Partners and Their Children

Major medical, dental, and vision coverage may be available for domestic partners of BMO's ("Company") eligible employees, and for the children of domestic partners, even if they are not also the children of eligible employees. Refer to the applicable summary plan description (SPD) and enrollment materials for a definition of domestic partner and child, and for the procedures you must follow to enroll these individuals for coverage. It is important to understand that the federal tax treatment of the coverage provided to these domestic partners and children is not the same as the federal tax treatment of benefits provided to spouses and children of eligible employees. Under federal tax law, an eligible employee may pay for coverage provided to a spouse or eligible child of an employee on a pre-tax basis under the cafeteria plan, and no portion of the premiums paid by the Company will be included in the employee's income or be subject to federal withholding or employment taxes.

Tax Consequences of Domestic Partner or Child Coverage

Under federal income tax law, the tax treatment of coverage provided to your domestic partner, or to the child of your domestic partner who is not also your child, will depend on whether the enrolled individual qualifies as your tax dependent for health coverage purposes, as defined in the applicable SPD. The test for determining tax dependency for health coverage purposes differs from the test used for other federal income tax purposes.

If the enrolled individual *does not* qualify as your tax dependent for health coverage purposes as defined below, then you will be unable to pay for that coverage on a pre-tax basis under the cafeteria plan. In addition, the value of the coverage provided to the non-tax dependent enrolled individual, less the amount you pay for the coverage on an after-tax basis, will be included in your gross income, subject to federal income tax withholding and employment taxes, and will be reported on your W-2. This includes any portion of the premiums that the Company pays for the applicable health coverage. The value of coverage varies, depending on the medical and dental coverage options you elect.

If the enrolled individual *does* qualify as your tax dependent for health coverage purposes (as outlined below), then you will be able to pay for the applicable coverage on a pre-tax basis under the cafeteria plan, and no portion of the premiums paid by the Company will be included in your income or be subject to federal withholding or employment taxes.

Note that if the enrolled individual qualifies as your tax dependent for health coverage purposes when first enrolled during a calendar year but fails to qualify as your tax dependent for health coverage purposes *for the entire year* because of a change that happens during the year, the value of the applicable coverage for the portion of the calendar year both prior to and after the change will be included in your gross income, and related income tax and employment tax withholding will be collected from your pay during that calendar year. The catch-up on withholding will reduce your take-home pay for some periods.

State Tax Treatment May Differ. State tax treatment of health coverage for domestic partners or their children may differ. See your CPA, attorney, or other tax advisor for more information about state tax treatment.

Who Is a Tax Dependent for Health Coverage Purposes?

The following conditions must be met for your domestic partner to qualify as your tax dependent for health coverage purposes under federal law:

- you and your domestic partner have the same principal place of abode for the entire calendar year;
- your domestic partner is a member of your household for the entire calendar year (the relationship must not violate local law);
- during the calendar year you provide more than half of the total support for your domestic partner;
- your domestic partner is not your (or anyone else's) "qualifying child" under Code 152(c); and
- your domestic partner is a U.S. citizen, a U.S. national, or a resident of the U.S., Canada, or Mexico.

Your domestic partner could be your federal tax dependent for health coverage purposes even if you do not claim your domestic partner as a dependent on your Form 1040.

To determine whether you provide more than half of the total support for your domestic partner, you must compare the amount of support you provide with the amount of support your domestic partner receives from all sources, including Social Security, welfare payments, the support you provide, and the support your domestic partner provides from the domestic partner's own funds. Support includes food, shelter, clothing, medical and dental care, education, and the like. If you believe you might provide more than half of the support for your domestic partner, you should use the support worksheet in IRS Publication 501 (Dependents, Standard Deduction, and Filing Information) before you complete the Tax Certification described below.

Domestic partners who are subject to state community property laws (such as California, Nevada, or Washington) may need to consider the impact of those laws on the support test. See IRS Publication 555 (Community Property) and [Answers to Frequently Asked Questions for Registered Domestic Partners and Individuals in Civil Unions](#).

A *child of your domestic partner* (who is not also your child) may qualify as your tax dependent for health coverage purposes under federal tax law by satisfying the above test or the "qualifying child" test. It can be more difficult for the children of your domestic partner to satisfy these tests and qualify as your tax dependent for health coverage purposes. This is because they may not meet the support test under the first option, and they may not be your qualifying children because they are qualifying children of your domestic partner. We recommend you consult a tax professional concerning your family situation.

Even if the child of your domestic partner does not meet the above tests, the child can receive tax-free health coverage if the child is your stepchild under the laws of the state in which you and your domestic partner reside and the child is under age 27 as of the end of the taxable year. If your domestic partnership is registered with a state or if you are in a civil union, in most states, the children of a domestic partner are the stepchildren of the employee. You must consult your CPA, attorney, or other tax advisor for assistance with these determinations.



Certification of Federal Tax Dependent Status to Avoid Taxation

To avoid taxation of the health coverage for your domestic partner and your domestic partner's children as explained above, you must complete and return to the Domestic Partner Tax Certification form, indicating that an enrolled domestic partner or child qualifies as your federal tax dependent for health coverage purposes. (A separate Tax Certification is required for your domestic partner and each child of your domestic partner who is not also your child.)

If your domestic partner or such children qualify as your tax dependents for health coverage purposes, you can avoid having the value of their health coverage treated as taxable income. You will be asked to complete a Tax Certification when your domestic partner or the children of your domestic partner first enroll in the plan and if you experience any change in tax status.

If no Tax Certification form is received from you, the Company will assume that the enrolled individual does not qualify as your federal tax dependent for health coverage purposes for that year.



DOMESTIC PARTNER TAX CERTIFICATION FORM

Please complete a Tax Certification for every individual enrolled as your domestic partner or as the child of your domestic partner (who is not also your child).

I hereby certify that the statements below are true and correct.

1. _____ is my domestic partner on the date of this Tax Certification or is the child of my domestic partner (who is not also my child).
2. I have read the notice entitled "Summary of Tax Treatment of Health Coverage Provided for Domestic Partners and Their Children," and I understand the requirements for qualifying another person as my federal tax dependent for health coverage purposes.
3. The above-named person *[select the one that applies]*:

qualifies as my federal tax dependent for health coverage purposes in the current tax year.

does not qualify as my federal tax dependent for health coverage purposes in the current tax year.

4. I agree to notify the Plan Administrator of the Company Group Health Plan in writing as soon as possible if there is any change in the status of the above-named person as my tax dependent for health coverage purposes, including any change that may occur midyear. I understand that any change in such status may result in the retroactive application of taxes to amounts previously paid for this health coverage during the year and to the value of the coverage provided by the Company to the person. I also agree to notify the Plan Administrator in writing as soon as possible if my domestic partner becomes my spouse due to our marriage.
5. I understand that on the basis of the above statements, the Company will decide whether to treat the above person as my tax dependent for all federal income and employment tax purposes, and that if I fail to complete this Tax Certification or any recertification requested by the Company, then the Company will assume that the above-named person does not qualify as my federal tax dependent for health coverage purposes.
6. I agree to reimburse the Company for all taxes, penalties, or other losses (including reasonable attorney's fees) that the Company may incur because of its reliance on this Tax Certification if it is untrue or incorrect in any respect, or if I fail to provide the notice required by paragraph 4 above.

I certify I have read and understand all the information stated above and attest that I am in a domestic partnership in accordance with such criteria. I understand that any attempt to gain tax advantages through misrepresentation may result in termination of coverage and lead to disciplinary action.

Signature

Date

Send the completed form to usbenefits@bmo.com