



COMMONWEALTH OF VIRGINIA
DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

SARA REDDING WILSON
DIRECTOR

James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

December 7, 2011

Dear Colleague:

Our records show that you have received a non-cash incentive from the COVA Connect health plan and/or been reimbursed for 50 percent of the cost of Weight Watchers® services during calendar year 2011. Since you have accepted this incentive or prize, you need to understand the tax consequences. Based on IRS regulations, the value of reimbursements and incentives awarded to state employees by the Department of Human Resource Management must be included in the employee's taxable wages.

In the past, employees receiving an incentive or reimbursement have been responsible for including the amount as income on their federal tax returns for that calendar year. After a further review of Internal Revenue Service (IRS) regulations, the DHRM's Office of Health Benefits has determined that applicable federal, state, local and FICA taxes must be withheld from employee paychecks for 2011 and going forward. The value of these cash or non-cash benefits must also be reported on employee W-2 forms for the year in which they were received.

For 2011, we regret that this decision came so late in the calendar year. Since these taxes are required by the IRS, you will see a reduction in take home pay in either your December 16 or December 30 paycheck because of taxes withheld. DHRM will give your agency payroll office and the Department of Accounts information on the fair market value of your reimbursement or incentive, and your name as the recipient so that the appropriate taxes can be withheld for you and your employer.

Beginning in 2012, DHRM will include a letter on tax consequences with any incentive or reimbursement provided to eligible state employees or retiree group members. Information on taxes also will be provided on the Weight Watchers® reimbursement form

If you need additional information on tax implications, please contact your local agency payroll office.

Sincerely,

State and Local Health Benefits Programs