Group-Term Life Insurance Imputed Income

This information is provided for purposes of general education; it should not be construed as legal or tax advice, and employers and employees or other plan participants are urged to consult their qualified advisors regarding the specific consequences of the applicable tax and other rules.

Total Amount of Coverage

IRC section 79 provides an exclusion for the first $50,000 of group-term life insurance coverage provided under a policy carried directly or indirectly by an employer. There are no tax consequences if the total amount of such policies does not exceed $50,000. The imputed cost of coverage in excess of $50,000 must be included in income, using the IRS Premium Table, and are subject to social security and Medicare taxes.

Carried Directly or Indirectly by the Employer

A taxable fringe benefit arises if coverage exceeds $50,000 and the policy is considered carried directly or indirectly by the employer. A policy is considered carried directly or indirectly by the employer if:

1. The employer pays any cost of the life insurance, or
2. The employer arranges for the premium payments and the premiums paid by at least one employee subsidize those paid by at least one other employee (the "straddle" rule).

The determination of whether the premium charges straddle the costs is based on the IRS Premium Table rates, not the actual cost. You can view the Premium Table below.

Because the employer is affecting the premium cost through its subsidizing and/or redistributing role, there is a benefit to employees. This benefit is taxable even if the employees are paying the full cost they are charged. You must calculate the taxable portion of the premiums for coverage that exceeds $50,000.

Not Carried Directly or Indirectly by the Employer

A policy that is not considered carried directly or indirectly by the employer has no tax consequences to the employee. Because the employees are paying the cost and the employer is not redistributing the cost of the premiums through an insurance system, the employer has no reporting requirements.

Example 1 - All employees for Employer X are in the 40 to 44 year age group. According to the IRS Premium Table, the cost per thousand is .10. The employer pays the full cost of the insurance. If at least one employee is charged more than .10 per thousand of coverage, and at least one is charged less than .10, the coverage is considered carried by the employer. Therefore, each employee is subject to social security and Medicare tax on the cost of coverage over $50,000.

Example 2 - The facts are the same as Example 1, except all employees are charged the same rate, which is set by the third-party insurer. The employer pays nothing toward the cost. Therefore there is no taxable income to the employees. It does not matter what the rate is, as the employer does not subsidize the cost or redistribute it between employees.

Coverage Provided by More Than One Insurer

Generally, if there is more than one policy from the same insurer providing coverage to employees, a combined test is used to determine whether it is carried directly or indirectly by the employer. However, the Regulations provide exceptions that allow the policies to be tested separately if the costs and coverage can be clearly allocated between the two policies. See Regulation 1.79 for more information.

If coverage is provided by more than one insurer, each policy must be tested separately to determine whether it is carried directly or indirectly by the employer.

Coverage for Spouse and Dependents

The cost of employer-provided group-term life insurance on the life of an employee's spouse or dependent, paid by the employer, is not taxable to the employee if the face amount of the coverage does not exceed $2,000. This coverage is excluded as a de minimis fringe benefit.

Whether a benefit provided is considered de minimis depends on all the facts and circumstances. In some cases, an amount greater than $2,000 of coverage could be considered a de minimis benefit.

If part of the coverage for a spouse or dependents is taxable, the same Premium Table is used as for the employee. The entire amount is taxable, not just the amount that exceeds $2,000.

Example 3 - A 47-year old employee receives $40,000 of coverage per year under a policy carried directly or indirectly by her employer. She is also entitled to $100,000 of optional insurance at her own expense. This amount is also considered carried by the employer. The cost of $10,000 of this amount is excludable; the cost of the remaining $90,000 is included in income. If the optional policy were not considered carried by the employer, none of the $100,000 coverage would be included in income.

Issue:

Employees who have been provided with more than $50,000 of company paid group term life insurance must have reported additional taxable income on their W2 form. Also, employees who have elected optional life insurance and are paying for it with before tax dollars are also to report the excess amount over $50,000. Example: Employee has $75,000 of employer paid group life. The employee purchases another $75,000 of optional life and is paying it with before tax dollars through the Section 125 plan. The total is $150,000 and with a $50,000 exclusion leaving $100,000. If you do not allow optional life to be paid through the Section 125 pre-tax plan, this would eliminate the optional group life in this calculation.

Calculating the cost for excess coverage requires multiplying the excess amount by the factor identified in a government published "Uniform Premiums - Table I" for each month of the taxable year.

Calculation:

Step 1: Collect and review group life insurance billing statements for the calendar year. Identify employees with amounts over $50,000, and put their dates of birth next to their names.

Step 2: Calculate the amount that is over $50,000 for each month of the year. Example: $75,000 total amount of coverage. Subtract: $50,000 employer paid tax free maximum amount. Difference: $25,000 excess coverage for the month

Step 3: Calculate the employees' age at the end of the tax year. Example: Date of birth is 6/1/61. Employee is age 39 on Dec 31. Amount of excess coverage is $25,000. From Table, I cost is $.11 per $1,000 of coverage. Calculate: $.11 x 25 = $2.75 for that month.

Calculate cost for each month for the balance of the year and total them.

If the employee shares in cost of the group term life plan, then you may deduct the employee contribution from the sum of the monthly inclusive amount calculated above (Only if the payment was made outside of a Section 125 Pre-tax Plan). Employee payments must be made with after tax dollars.

Withholding:

We understand this reportable income is subject to FICA withholding. Please check with your payroll or tax advisor for additional information. Don't forget to report this on your 4th calendar year quarter Form 941.

Uniform Premium for $1,000 of Group Term Life Insurance Protection

Age Bracket	***Cost for One Month Period***
Use Age at End of tax year	
Under 25	**.05**
25-30	**.06**
31-34	**.08**
35-39	**.09**
40-44	**.10**
45-49	**.15**
50-54	**.23**
55-59	**.43**
60-64	**.66**
65-69	**1.27**
70 & Over	**2.06**

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