

GROUP-TERM LIFE INSURANCE

One of the more popular benefits offered employees is employer-provided life insurance. The most common type of insurance is group-term life insurance (GTL). This often provides a death benefit payable in a lump sum to the employee's designated beneficiary.

Employer-provided group-term life insurance coverage with a value of \$50,000 or less is a tax-free benefit, if provided in a nondiscriminatory fashion. Dependent GTL is exempt if it is less than \$2,000.

The value of coverage in excess of \$50,000, less any employee after-tax deductions to pay for insurance, is taxable income to the employee subject to federal income tax withholding, social security, and Medicare. Employers are not required to withhold federal income tax on these amounts.

The value is exempt from PUC, FUT, PA, and local withholding. PA exempts GTL > \$50,000.

If an employer-provided GTL policy is discriminatory or the policy provides coverage in excess of \$50,000, the value of the insurance benefit to be included in the employee's income is calculated using the IRS Section 79 Table I.

The taxable value is determined by using the table provided by the IRS that uses the age of the employee on the last day of the calendar year and a cost associated with each age. Imputed income must be calculated anytime the coverage amount changes. This is a month by month calculation.

For dependent GTL, if the coverage exceeds \$2,000, the entire value is includable in the employee's income. For purposes of the table, you may use the child or spouse's age to calculate the value rather than the employee's.

Coverage over \$50,000 provided to retired and terminated employees is also taxable in the year coverage is provided, but there is no way to withhold social security and Medicare taxes since they are no longer employees. You need to

calculate the social security and Medicare tax and include this information on a W-2 in box 12, preceded by Codes M & N.

Employers must remit their match of social security and Medicare taxes on a 941 deposit. For uncollected withholding of GTL amounts, the GTL amounts are entered as wages on the 941 and then the employee portions are backed out as line 9 adjustments.

GTL is reportable on the W-2 in boxes 1, 3, and 5, and 12 with Code C.

IRS Table I – Uniform Premiums

Fair Market Value of GTL Insurance per \$1,000
of Excess Benefit per Month

Under Age 25	\$0.05
Age 25-29	\$0.06
Age 30-34	\$0.08
Age 35-39	\$0.09
Age 40-44	\$0.10
Age 45-49	\$0.15
Age 50-54	\$0.23
Age 55-59	\$0.43
Age 60-64	\$0.66
Age 65-69	\$1.27
Age 70 and above	\$2.06

Example 1: Assume a 65-year old employee (male or female) is covered by \$200,000 of employer-paid group term life insurance. Using the table, the cost of \$1,000 of insurance for one month for a 65-year old individual is \$1.27. Calculate the taxable income as follows:

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|--|---|------------|
| 1. Taxable coverage (\$200,000 - \$50,000) | = | \$150,000 |
| 2. Annual cost per \$1,000 (12 x \$1.27) | = | 15.24 |
| 3. Includable in employee's income (\$15.24 x 150) | = | \$2,286.00 |

Example 2: Valerie was born April 23, 1957. Her employer's nondiscriminatory group-term life insurance plan provides her coverage equal to 2 x her annual salary as of January 1. Her salary as of January 1, 2016 was \$65,000. Her employer's plan has a maximum coverage amount of \$125,000. Valerie contributes \$25 per month in after-tax dollars toward the insurance premiums.

1. $\$65,000 \times 2 = \$130,000$ (Maximum coverage amount = \$125,000).
Valerie's coverage = \$125,000
2. $\$125,000 - \$50,000 = \$75,000$
3. $\$75,000 / \$1,000 = 75$
4. Valerie will be 59 years old on 12/31/16
5. $\$.43 \times 75 = \32.25
6. $\$32.25 - \$25.00 = \$7.25$ per month of taxable income in 2016

If Valerie did not pay anything for the group-term life insurance, or paid with only pre-tax dollars, the entire \$32.25 would be included in her income each month.

1. Determine the total amount of the employee's group-term life insurance coverage.
2. Calculate the excess benefit over \$50,000.
3. Divide the excess insurance amount by 1,000.
4. Determine the employee's age as of December 31 of the calendar year during which the benefit is taxable.
5. Use IRS Table I to calculate the fair market value of one month of excess insurance per \$1,000 and multiply it by the answer obtained from Step 3.

6. Deduct any after-tax contributions by the employee from the value of the insurance.
7. Add the excess amount to the employee's income, withhold and pay social security and Medicare taxes, and report the amount as required.

Example 3: Let's assume Valerie was terminated after working four month out of the year. Calculate the income as follows:

1. Taxable coverage – $(\$125,000 - \$50,000) = \$75,000$
2. Annual cost per \$1,000 $(4 \times \$1.27) - \5.08
3. Amount includable in employee's income $(\$5.08 \times 75) = \381.00