



REPORTING OF LIFE INSURANCE AS IMPUTED INCOME

In general, the benefits that an employer provides to its employees are excluded from an employee’s taxable income. However, for employer sponsored group term life insurance, there are some exceptions to this taxability exclusion.

The Internal Revenue Code (IRC) details the tax implications for employer-sponsored group term life insurance, excluding the cost of the first \$50,000 in employer provided coverage. The cost of any excess coverage is subject to federal income and FICA (Social Security and Medicare) taxes. “Cost” as referred to here does not mean the premium paid by the employer but the cost determined under the Internal Revenue Services (IRS) table of rates. [The table is included at the end of this article.] The “cost” of the coverage added to an employee’s gross income is commonly referred to as “imputed income.” The “cost” is reported on the employee’s W-2 and the employer withholds the employee’s portion of FICA taxes and pays its FICA share.

There are several other instances, besides the employer provided coverage exceeding a benefit in the amount of \$50,000, which would require additional taxable income to the employee.

Employer-sponsored voluntary life coverage. If an employee is paying the entire cost of the life coverage on an after-tax basis, the coverage may still be considered partly-employer provided. This would occur if an employee’s post-tax contributions are less than the value of the excess coverage calculated using the IRS’ table of rates.

Employer-sponsored voluntary life insurance paid for with pre-tax dollars under a Section 125 plan. If an employee pays for coverage using pre-tax dollars, the coverage is treated, for tax purposes, as if the employer paid those premiums. Thus, the costs for any amounts that exceed \$50,000 must be included as income.

Employers must include in their employees’ wages the cost of group-term life insurance beyond \$50,000 worth of coverage, reduced by the amount the employee paid toward the insurance on an after-tax basis. The \$50,000 includes any employer provided group term life benefit and any pre-tax life coverage for which the employee pays. An employer should raise any concerns regarding group-term life insurance and imputed income with its tax advisor.

TABLE I RATES FOR GROUP TERM LIFE INSURANCE

Age Bracket	Cost of \$1,000 of GTL per Month	Cost of \$1,000 of GTL for One Year
Under 25	\$0.05	\$0.60
25-29	\$0.06	\$0.72
30-34	\$0.08	\$0.96
35-39	\$0.09	\$1.08
40-44	\$0.10	\$1.20
45-49	\$0.15	\$1.80
50-54	\$0.23	\$2.76
55-59	\$0.43	\$5.16
60-64	\$0.66	\$7.92
65-69	\$1.27	\$15.24
70 and Over	\$2.06	\$24.72