

## Chapter 16

### How Group Term Life Insurance Benefits Are Taxed

#### **\*Important Disclosure\***

Securian and ETF are not tax experts and cannot provide legal advice regarding compliance with the IRS requirements. The information in this section should not be construed as tax advice. Should you need advice regarding imputed income, we urge you to seek assistance from a qualified tax professional.

#### **A. Imputed Income**

In most cases, the cost of up to \$50,000 of group-term life insurance coverage (as determined by IRS rules) that is provided to an employee by an employer for a taxable year is not included in an employee's income. However, an employee generally must include in income the IRS cost of employer-provided insurance provided for the year that is more than the cost of \$50,000 of coverage (as determined by IRS rules) reduced by any amount the employee pays toward the purchase of the insurance. This is commonly referred to as imputed income.

##### **1. IRS Publications**

The following IRS publications may assist you in determining whether or not you need to report imputed income.

- IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits  
[www.irs.gov/pub/irs-pdf/p15b.pdf](http://www.irs.gov/pub/irs-pdf/p15b.pdf)
- Federal, State and Local Governments Fact Sheets  
[www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/Group-Term-Life-Insurance](http://www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/Group-Term-Life-Insurance)

##### **2. Employee Communication**

As you develop information about imputed income for your employees, it may be helpful to let them know how FICA tax will be deducted and how the imputed income will be reported.

##### **3. Sample Calculation**

We have provided a sample calculation for your reference. The sample calculation is based upon the example given in IRS Publication 15-B referenced above. Please note that the sample calculation includes both the employer-paid and employee-paid coverage.

#### 4. How is imputed income calculated?

Example:

- ◆ Employee's age on December 31 is 37.
- ◆ Employee has Basic Term Life Insurance equal to \$55,000 paid for by the employer.
- ◆ Employee pays for Supplemental Term Life Insurance equal to \$55,000.
- ◆ Employee pays for three units of Additional Term Insurance equal to \$165,000.  
(Please note that not all local government employers provide all five levels of coverage. For illustrative purposes, this example assumes the employee has all five levels of coverage.)

##### Step 1:

**Subtract \$50,000 from amount of employee's insurance coverage.**

Total Amount of Life Insurance:	\$275,000
Less IRS Exclusion:	<u>- 50,000</u>
Excess Insurance:	\$225,000

##### Step 2:

**Determine the IRS cost of excess insurance.**

IRS Monthly Rate (see IRS table below):	\$ .09
Excess Insurance in Thousands (from Step 1):	<u>x 225</u>
IRS Cost of Excess Insurance for 1 Month:	\$20.25

##### Step 3:

**Multiply the cost of excess insurance for 1 month times the number of coverage months.**

IRS Cost of Excess Insurance for 1 Month (from Step 2):	\$ 20.25
Times Number of Months of Coverage:	<u>x 12</u>
Total Cost for Coverage Months:	\$243.00

##### Step 4:

**Subtract the amount the employee paid for insurance.**

Annual Cost of Excess Insurance (from Step 3):	\$243.00
Cost of Insurance Paid by Employee for the Calendar Year:	<u>-184.80*</u>
Annual Reportable Imputed Income:	\$ 58.20**

*\*In this example, the employer pays for the Basic and the employee pays for Supplemental and Additional. The annual cost is arrived at by adding up the total payroll deductions for the year for Supplemental and Additional insurance. Local government premium rates were used in this example. Not all employees elect Supplemental and Additional insurance.*

*\*\*This amount is reported on your W-2 statement as "other" income. The tax you pay on "other" income will depend on your tax bracket.*

## 5. IRS Table I Rates - Uniform Premiums for \$1,000 of Group Life Insurance

Rates were effective July 1, 1999. Check [IRS Publication 15B](#) annually for the current IRS Table I rates. The rate is the cost per \$1,000 of Life Insurance for one (1) month period.

Age*	Rate	Age*	Rate
Under 25	0.05	45 to 49	0.15
25 to 29	0.06	50 to 54	0.23
30 to 34	0.08	55 to 59	0.43
35 to 39	0.09	60 to 64	0.66
40 to 44	0.10	65 to 69	1.27
		70+	2.06

*\*Employee's attained age on the last day of the calendar year for which imputed income is being calculated.*

### B. Death Benefits

Death benefits paid by life insurance are not taxable by the State of Wisconsin. For federal tax purposes, beneficiaries should consult with a tax advisor.

Life insurance proceeds that an employee receives as a result of the death of a spouse or dependent are not taxable to the employee and are not included in the deceased person's estate.

For more information about tax treatment of group term life insurance and death benefits, please consult with a tax professional.