

## WHAT IS IT?

Section 79 of the Internal Revenue Code allows employers to provide group term life insurance to employees on a pre-tax basis. Premiums paid by employers to fund group life insurance in excess of \$50,000 are taxable income to employees (reduced by any amounts paid by the employee toward the cost of the coverage). Employer-paid premiums for spouse or dependent life insurance with a face amount of coverage in excess of \$2,000 are also considered taxable income to the employee. Coverage under \$2,000 may be excluded as a de minimis fringe benefit under IRC Section 132. The employer must compute the "cost" of the additional protection and notify the employee of the amount to include in his or her taxable income.

In addition, supplemental life insurance coverage amounts are considered towards the \$50,000 limit if the plan is "carried" by the employer. A plan is considered "carried" by the employer if:

1. The employer pays any cost of the employee or dependent life insurance, or
2. Premium amounts for at least one employee or dependent subsidize those paid by at least one other employee or dependent. IRS Table 1 rates are used to determine if premium amounts are subsidized. A policy is "carried" if some rates are equal to or below Table 1 rates and some are equal to or above Table 1 rates.

## WHAT TYPES OF EMPLOYERS OFFER IT?

All types of employers are required to compute imputed income on life insurance over \$50,000.

## WHAT SIZE EMPLOYERS OFFER IT?

Employers of all sizes.

## WHAT ARE THE CRITICAL UNDERWRITING OR PARTICIPATION REQUIREMENTS?

- The premium amounts that must be included in employees' taxable income for employer-paid and employee-paid life insurance (for self, spouse or dependents) are based on standard rates put forth by the IRS (Table 1).
- These rates are based on the age attained by the employee on the last day of taxable year (Dec 31). They are not in any way related to the current life insurance rates charged by insurance companies.
- To ensure employees are not charged imputed income, employers should verify that voluntary life insurance rates do not crossover or straddle Table 1 rates.

## HOW MUCH DOES IT COST?

IMPUTED INCOME TABLE I RATES

Employee Age on December 31	Monthly Rate Per \$1,000 of Benefit
<25	0.05
25 - 29	0.06
30 - 34	0.08
35 - 39	0.09
40 - 44	0.10
45 - 49	0.15
50 - 54	0.23
55 - 59	0.43
60 - 64	0.66
65 - 69	1.27
70+	2.06

## EXAMPLE 1:

A 28-year old employee has \$150,000 of employer paid basic coverage. The volume of life insurance over \$50,000 is considered taxable income and is multiplied by the applicable Table 1 rate for each month the life volume is over \$50,000. The resulting amount is the taxable income that needs to be included on the employee's W-2. Federal and state income tax liability on this amount will depend on the employee's personal circumstances.

\$ 150,000	Total amount carried by employer
- \$50,000	Exempt amount
\$100,000	Amount that is considered imputed income
/ 1,000	Per \$1,000 of coverage
\$100	Imputed income volume
x \$.06	Rate for 28-year old employee
\$6	imputed (taxable) income per month

## EXAMPLE 2:

The same 28-year old employee receives \$50,000 of employer paid (or "carried") basic coverage per year. She is also entitled to \$100,000 of optional insurance at her own expense, and all the rates are above or at or below or at Table 1 rates (this plan is not considered "carried" by the employer). Since the additional amounts are not carried by the employer, the employee does not have imputed income.

\$50,000	Total amount carried by employer
- \$50,000	Exempt amount
\$0	Amount considered imputed income

**EXAMPLE 3:**

The same 28-year old employee receives \$50,000 of employer paid (or “carried”) basic coverage per year. She is also entitled to \$100,000 of optional insurance at her own expense. Her optional insurance rate is \$.04, which is less than the \$.06 amount Table 1. Other employees are charged higher rates than Table 1, making the optional insurance considered “carried” by the employer. The cost of the \$100,000 is included in income, and her contributions are subtracted from the unadjusted imputed income amount.

\$ 150,000	Total amount carried by employer
- \$50,000	Exempt amount
\$100,000	Amount subject to imputed income
/ 1,000	Per \$1,000 of coverage
\$100	Imputed income volume
x \$.06	Rate for 28-year old employee
\$6	unadjusted imputed (taxable) income per month
- \$4	employee post-tax contribution per month
\$2	adjusted imputed (taxable) income per month

Life insurance imputed income should be prorated if less than a full month of coverage is provided.

**TIPS FOR PAYROLL ADMINISTRATION**

- Frequency of reporting (i.e., per pay period, monthly, quarterly) is at the employer’s discretion as long as the imputed income is treated as paid by December 31 and is reported on employees’ W-2. The imputed income amounts are not subject to federal tax withholding and are subject to FICA.
- If there are changes to the amount of group term life insurance during the year (e.g., due to salary adjustments or changes in supplemental life insurance), the imputed income will need to be calculated for each period. For example, if the calendar year group term insurance is a multiple of salary and there is a salary adjustment effective June 1, then the imputed income for the periods of January 1 through May 31 and June 1 through December 31 will be calculated separately and added together.
- Key Life Insurance in which has the company named as a beneficiary is exempt from Section 79.

**INFORMATIONAL LINK(S)**

- [Group Term Life Plans](#) (IRS.gov)
- [US CODE: Section 79. Group-term life insurance purchased for employees](#) (Cornell University Law School)

**PROS AND CONS****PROS**

- Encourages employers to provide life insurance benefits for employees.
- Allows employers and employees to avoid some taxation of life insurance benefits.

## CONS

- Employer must compute the "cost" of the additional protection and notify the employee of the amount to include in his or her taxable income.
- If the employer's group-term life insurance plan favors key employees, the entire cost of the insurance must be included in the key employee's income.
- If the voluntary life rates favor any one group, imputed income must be assessed.



*This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization.*