

UNDERSTANDING PAYROLL TAX TREATMENT OF EMPLOYER-PAID GROUP TERM LIFE PREMIUMS

Employers who pay the premium for group term life insurance coverage offered to employees may do so up to a policy benefit amount of \$50,000 for the employee and \$2,000 for dependents without any tax impact. Employer paid costs (premium) required to purchase amounts above the \$50,000 limit must be reported as W-2 wages to the employee. If more than \$2,000 is provided for spouse coverage, the entire amount is reported as W-2 wages for the employee.

If the employee shares in the cost, perhaps paying half of the premium through payroll deduction, only the employer paid portion is reported as W-2 income, and only for the premium required to pay for amounts above the limits.

The correct premium to report as W-2 wages is:

The actual cost of the life premiums (usually shown as a certain dollar amount per \$1,000 of coverage) or the IRS Table I amount, whichever is **more**.

IRS Table I– Monthly cost per \$1,000 of Life Insurance	
Under 25	5 cents
25 through 29	6 cents
30 through 34	8 cents
35 through 39	9 cents
40 through 44	10 cents
45 through 49	15 cents
50 through 54	23 cents
55 through 59	43 cents
60 through 64	66 cents
65 through 69	\$1.27
70 and above	\$2.06

POINTS TO REMEMBER

- The age of the employee is his/her attained age on the last day of the calendar year.
- These costs are FICA taxable, but are not subject to income tax withholding.
- Those who terminate employment due to permanent disability and for whom the employer provides more than \$50,000 in life coverage are excepted from the above (IRC Sec79(b)) if proof of disability (as described in Reg. Sec. 1.79-2(b)(4)) is submitted with the first income tax return filed for the year of disablement and each year thereafter.

This information should not be considered legal or accounting advice, and is not intended to replace the services from competent legal and/or accounting professionals. Berg Andonian, Inc. (1-888-858-5115)