Group Term Life Insurance

# Taxation Consequences Of Group Term Life Insurance

## A Key To Understanding Imputed Income Issues

It can be challenging for benefits administrators to understand and calculate employees' taxable income for group term life insurance[1] coverage. Sections 61 and 79 of the Internal Revenue Code provide some direction, but also add complexity. Of particular note is the issue of "straddling," which occurs when some employees in the plan pay more while others pay less than the coverage rates listed in Table I of the Section 79 regulations.[2]

## Employees' Gross Income As Defined By Sections 61 And 79

As a general rule, anything that employees receive from employers as compensation for services, including fringe benefits, is included in their gross income under section 61 unless specifically excluded by some other IRC section. Section 79 provides this exclusion under both employer-paid group term life insurance plans and employee-paid additional life and voluntary life insurance plans.

### Section 79 Exclusions

#### Employer-Paid Group Term Life Insurance Coverage

*Excludes* the cost of the first $50,000 of group term life insurance coverage from employees' gross income.

The exclusion does not apply to:

- Individuals who are not considered employees, such as 2 percent or more shareholders and partners.
- Key employees in a discriminatory plan (rank-and-file employees maintain the above exclusion whether or not the plan is discriminatory).

#### Employee-Paid Additional Life And Voluntary Life Insurance Coverage

*Excludes* the cost of coverage from employee's gross income when:

1. The employee pays 100 percent of the additional life and voluntary life plan and,
2. If the employer also pays for a basic plan that, like the additional life and voluntary life plan, is priced on a self-supporting basis and,
3. Premium rates do not straddle Section 79's Table I, a situation that occurs when at least one employee pays less for coverage than the Table's rates and at least one employee pays more than the Table's rates.

**continued on reverse**

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1 If your plan is small (under 10 insured lives), check with your tax or legal professionals to determine if it qualifies as group-term life insurance.

2 TABLE I. – Uniform Premiums For $1,000 Of Group-Term Life Insurance Protection, Department of the Treasury, Internal Revenue Service, 26 CFR Part 1, www.irs.gov/pub/irs-regs/td8821.pdf (accessed Feb. 25, 2014).

**Contact your Group Life insurance representative at The Standard‡ for more information about this topic or our group products and services. Consult your legal or tax advisor to learn how taxation consequences affect your benefits plan.**



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## Straddling Causes Plan To Be Carried By The Employer

If an employee-paid plan does not meet the conditions listed in the table on the reverse page, it is considered to be carried by the employer and any group term life insurance coverage provided by the employer in excess of $50,000 must be included in employees' gross income. The amount of imputed income – the taxable amount an employee will be responsible for – is based on a calculation incorporating Table I rates.[3] Employee-paid (post-tax) premium will apply to reduce this imputed income amount.

## Table I

Employers use Table I to determine the value of group term life insurance for purposes of calculating imputed income. The Table can also be used to determine if the plan is carried by the employer as a result of straddling.

| Age | Cost per $1,000 |
|---|---|
| <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 or older | 2.06 |

## Considerations For Cafeteria Plans

If additional life or voluntary life coverage is offered through a Section 125 Cafeteria Plan, amounts paid on a pre-tax basis by the employee (pursuant to a salary reduction agreement) are always treated as employer – not employee – contributions. Coverage will be subject to Section 79 for amounts in excess of $50,000.

3 For key employees under a discriminatory plan, imputed income is the greater of actual cost (which is not necessarily premium) and the Table I cost of the plan. Seek guidance on determining actual cost.