

## Taxation and Group Life Insurance Plans with Dependent Coverage

Dependents life insurance offered through the employer is considered a fringe benefit and is subject to tax under IRC Section 61.

Under IRC Section 132, employers can provide \$2,000 or less of group term life insurance for employees' dependents on a "tax free" basis. However, if the amount of dependent coverage is more than \$2,000, imputed income for the employee is calculated on the entire amount whether it is employer-paid or employee-paid, including the first \$2,000.

IRC Section 79 Table I rates are used to determine imputed income on dependents life insurance. The age of the spouse and child are used to determine the rate that is applicable to their coverage.

### Key items to keep in mind:

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- Imputed income = The Table I cost – the amount that an employee pays in premium for the dependents life coverage on a post-tax basis.
- 100% Employer-paid dependents life coverage will contribute to an employee's imputed income, unless it is \$2,000 of coverage or less.
- If the cost for the employee-paid dependents life coverage is greater than the cost using the Table I rate, then the employee will not have imputed income added from the dependents life coverage.
- If the cost for employee-paid dependents life coverage is less than the cost using Table I rates, then the difference in the cost calculated using the Table 1 rate and the premium the employee pays is considered imputed income.

Example:

Employee-paid dependents life coverage with rates that are less than and greater than Table I rates

<b>Table I</b> Uniform Premiums for \$1,000 of Group-Term Life Insurance Protection 25 C.F.R 1.79-3(d)(2)		Employer's premium rate for spouse	Employer's premium rate for child*
Age	Cost per \$1,000 per month	Cost per \$1,000 per month	Cost per \$1,000 per month
Under age 25	\$0.05	\$0.06	\$0.06
25 through 29	\$0.06	\$0.06	\$0.06
30 through 34	\$0.08	\$0.07	
35 through 39	\$0.09	\$0.10	
40 through 44	\$0.10	\$0.15	
45 through 49	\$0.15	\$0.26	
50 through 54	\$0.23	\$0.42	
55 through 59	\$0.43	\$0.60	
60 through 64	\$0.66	\$0.79	
65 through 69	\$1.27	\$1.13	
70 and over	\$2.06	\$1.93	

\*The definition of children will be stated in the Employer's contract. Keep in mind that the definition may cover children through age 25.

Sample calculation for employee-paid dependents life coverage

	Employee 1's Spouse	Employee 2's Spouse	Employee 2's Child
Age	47	31	4
Optional coverage amount	\$100,000	\$100,000	\$10,000
Table I rate	\$0.15	\$0.08	\$0.05
Table I cost of coverage per year	$\$100,000/\$1,000 \times \$0.15 \times 12 = \text{\$180}$	$\$100,000/\$1,000 \times \$0.08 \times 12 = \text{\$96}$	$\$10,000/\$1,000 \times \$0.05 \times 12 = \text{\$6}$
Monthly employee premium rate	\$0.26	\$0.07	\$0.06
Employee premium contributions per yr.	$\$100,000/\$1,000 \times \$0.26 \times 12 = \text{\$312}$	$\$100,000/\$1,000 \times \$0.07 \times 12 = \text{\$84}$	$\$10,000/\$1,000 \times \$0.06 \times 12 = \text{\$7.20}$
Imputed income calculation	$\$180 - \$312 = -\$132$	$\$96 - \$84 = \$12$	$\$6 - \$7.20 = -\$1.20$
Yearly imputed income to employee	\$0	\$12	\$0