



Disability Insurance Taxation Administration Options

Correctly handling premium contributions and reporting the taxability of benefit payments can be confusing. To help make the process easier, we've created this Disability Taxation Administration Options flyer. It clarifies your options for the taxability of benefits and for premium contributions.



Taxability of Benefits and Premium Contribution Options

Pay Now or Pay Later	Who Pays Premium?			Additional Responsibilities to Support Claims Administration	
	100% Employer-Paid	100% Employee-Paid	Shared Contributions		
How Are Benefits Taxed?	Fully Taxable Benefit	No Gross-Up <ul style="list-style-type: none"> All premiums are paid by the employer and not included in the employee's gross wages on their payroll W-2. 	Pre-Tax <ul style="list-style-type: none"> All premiums are paid for by the employees with pre-tax payroll deductions. 	Employer No Gross-Up + Employee Pre-Tax <ul style="list-style-type: none"> A portion of the premiums is paid by the employer and not included in the employee's gross wages on their payroll W-2. A portion of the premiums is paid for by the employees with pre-tax payroll deductions. 	None
	Non-Taxable Benefit	Gross-Up <ul style="list-style-type: none"> All premiums are paid by the employer and included in the employee's gross wages on their payroll W-2. 	Post-Tax <ul style="list-style-type: none"> All premiums are paid for by the employees with post-tax payroll deductions. 	Employer Gross-Up + Employee Post-Tax <ul style="list-style-type: none"> A portion of the premiums is paid by the employer and included in the employee's gross wages on their payroll W-2. A portion of the premiums is paid for by the employees with post-tax payroll deductions. 	None
	Partially Taxable Benefit Taxation is based on IRS Three-Year Look Back Rule. (See Three-Year Look Back Rule on page 3.)	N/A	N/A	Employer No Gross-Up + Employee Post-Tax <ul style="list-style-type: none"> A portion of the premiums is paid by the employer and not included in the employee's gross wages on their payroll W-2. A portion of the premiums is paid for by the employees with post-tax payroll deductions. OR Employer Gross-Up + Employee Pre-Tax <ul style="list-style-type: none"> A portion of the premiums are paid by the employer and included in the employee's gross wages on their payroll W-2. A portion of the premiums is paid for by the employee with pre-tax payroll deductions. 	By November 1 of every calendar year, the policyholder must provide The Standard: <ul style="list-style-type: none"> The tax rate that should be used for all claims incurred in the following year. OR <ul style="list-style-type: none"> Accurate premium data in sufficient detail to calculate the tax rate that should be used for all claims incurred in the following year.
	Tax Choice Plans Taxation is based on the employee's irrevocable election for the plan year in which the employee becomes disabled. (See Tax Choice plans on page 3.)	Gross-Up OR No Gross-Up <ul style="list-style-type: none"> All premiums are paid for by the employer. Employees are provided an irrevocable choice for each plan year to have premiums included or not included in their gross wages on their payroll W-2. 	Pre-Tax OR Post-Tax <ul style="list-style-type: none"> All premiums are paid for by the employee. Employees are provided an irrevocable choice for each plan year to have premiums withheld as a pre-tax or post-tax deduction. 	N/A	With each claim filed: <ul style="list-style-type: none"> Policyholder is responsible for providing The Standard the correct tax rate to claim filed based on the member's current election.

Additional Information Regarding Taxation of Disability Benefits

Three-year Look Back Rule	Taxation Classes	Plan Changes																
<p>When premiums are paid for by a mixture of pre-tax and post-tax funds, the IRS Three-Year Look Back Rule applies.</p> <p>Under this rule, pre-tax and post-tax can be defined as:</p> <ul style="list-style-type: none"> • Pre-Tax Funds — “employer-paid no gross-up” OR “employee-paid pre-tax.” • Post-Tax Funds — “employer-paid gross-up” OR “employee-paid post-tax.” <p>Using the IRS Three-Year Look Back Rule to Calculate Taxability</p> <p>How: Use the ratio of premiums paid pre-tax to total premium used to pay for benefits.</p> $\frac{\text{Pre-Tax Premium}}{\text{Total Premium}} = \text{Taxable Rate to Apply to Disability Benefits}$	<p>Taxation classes are based on premium contribution methods and may not align to policy classes.</p> <p>A separate determination of taxability is made for each taxation class of employees, with different contribution methods if the contributions for the various classes can be separated out. If the contributions are unable to be separated out, then all employees must be defined as a single taxation class subject to the same taxation.</p> <p>IRS References to Review</p> <ul style="list-style-type: none"> • Internal Revenue Code Section 105 and associated regulations. 	<p>Taxation may be impacted when you change your plan design, depending on the type of change.</p> <p>Moving carriers may not be considered an “amended plan.”</p> <p>The policyholder is responsible for determining if changes to their plan create an amended plan of a continuation of the current plan.</p> <p>IRS References to Review</p> <ul style="list-style-type: none"> • Internal Revenue Code Section 105 and associated regulations. • Internal Revenue Code Section 106 and associated regulations. 																
<p>What: Using net premiums known when the calculation is performed.</p> <table border="1" data-bbox="121 850 665 1039"> <thead> <tr> <th>Net Premiums Known</th> <th>Premiums to Use</th> </tr> </thead> <tbody> <tr> <td>Less Than One Policy Year</td> <td>> Estimate of First Policy Year Net Premiums</td> </tr> <tr> <td>Less Than Three Policy Years, More Than One</td> <td>> Net Premiums Paid to Date</td> </tr> <tr> <td>Three or More Full Policy Years</td> <td>> Last Three Full Policy Years Known</td> </tr> </tbody> </table> <p>Who: Calculated separately for each taxation class within the plan (See taxation classes).</p> <p>When: Calculated annually and the resulting rate is applied to all claims incurred in the following calendar year.</p> <p>Prior to the effective date of the policy and then by November 1 of each year, the policyholder must provide certain information to The Standard so that claims can be appropriately administrated. Policyholder can:</p> <ul style="list-style-type: none"> • Perform the calculation and provide the resulting rate to The Standard. <p>OR</p> <ul style="list-style-type: none"> • Provide accurate premium data in sufficient detail so that The Standard can calculate the appropriate taxability rate. <p>Note: The premium data required may differ from that submitted with your regular billing.</p> <p>IRS References to Review</p> <ul style="list-style-type: none"> • Internal Revenue Code Section 105 and associated regulations. 	Net Premiums Known	Premiums to Use	Less Than One Policy Year	> Estimate of First Policy Year Net Premiums	Less Than Three Policy Years, More Than One	> Net Premiums Paid to Date	Three or More Full Policy Years	> Last Three Full Policy Years Known	<p>Tax Choice Plans</p> <p>Revenue Ruling 2004-55 and Section 125 Cafeteria Plans provide options that give employees more flexibility in determining if they would rather pay income tax on the disability premiums or on the disability benefits.</p> <p>Employees in a Tax Choice taxation class can:</p> <ul style="list-style-type: none"> • Make a new irrevocable choice prior to the beginning of each plan year. <p>OR</p> <ul style="list-style-type: none"> • Have their prior election, once made, continue from one year to the next unless affirmatively changed before the beginning of the new plan year. <p>Advantages & Considerations</p> <ul style="list-style-type: none"> • Choice Employees can choose option that is best for them. • Flexible Employees can change election annually. • Administration <ul style="list-style-type: none"> - May be more challenging to administer premium deductions and payroll reporting. - Policyholder must provide the employee’s election to The Standard at the time a disability claim is filed. <p>IRS References to review</p> <ul style="list-style-type: none"> • IRS Revenue Ruling 2004-55. • Internal Revenue Code Section 125 and associated regulations. 	<p>Employer Reporting</p> <p>Internal Revenue Code Section 6051 (f) requires insurers to provide information to policyholders and plan sponsors to allow them to report on sick pay benefits paid to their employees.</p> <p>This includes the amount of disability benefits paid and taxes withheld from those benefits during the previous calendar year.</p> <p>The Standard automatically provides this information to you in the following reports:</p> <table border="1" data-bbox="1144 1207 1502 1375"> <thead> <tr> <th>Reports</th> <th>Frequency</th> </tr> </thead> <tbody> <tr> <td>STD Claims Run*</td> <td>Daily</td> </tr> <tr> <td>Group Benefit Activity Report</td> <td>Monthly</td> </tr> <tr> <td>Disability Income Report</td> <td>Annually</td> </tr> </tbody> </table> <p>*Available in AdminEASE</p> <p>When you receive these reports:</p> <ul style="list-style-type: none"> • Verify that all individuals listed on the reports are your employees and that their personal information is correct. • Check the Claim Taxable Percentage for accuracy. • Notify us of any discrepancies you may find or if you have questions about any of the report information. <p>(See Employer’s Guide to taxation for additional details.)</p>	Reports	Frequency	STD Claims Run*	Daily	Group Benefit Activity Report	Monthly	Disability Income Report	Annually
Net Premiums Known	Premiums to Use																	
Less Than One Policy Year	> Estimate of First Policy Year Net Premiums																	
Less Than Three Policy Years, More Than One	> Net Premiums Paid to Date																	
Three or More Full Policy Years	> Last Three Full Policy Years Known																	
Reports	Frequency																	
STD Claims Run*	Daily																	
Group Benefit Activity Report	Monthly																	
Disability Income Report	Annually																	

Tax Reporting Options

Tax Reporting	Long Term Disability Plans	Short Term Disability (STD) and Statutory Disability Insurance (SDI) Plans	
		Without a FICA and W-2 Reporting Service Agreement	With a FICA and W-2 Reporting Service Agreement
			Provided at additional cost
Withhold and remit employee share of FICA/Tier 1 tax	The Standard	The Standard	The Standard
Withhold and remit federal and state income tax (if applicable)	The Standard	The Standard	The Standard
Remit employer share of FICA/Tier 1 tax	The Standard	Policyholder	The Standard
Report disability benefits on Form 941	The Standard	Policyholder	The Standard
Prepare W-2 forms for disability benefits paid to employees	The Standard	Policyholder	The Standard
Report disability benefits on Form 8922	N/A	The Standard	N/A
Pay and report other payroll taxes (e.g. Federal Unemployment Tax Act, State Unemployment Tax Act)	Policyholder	Policyholder	Policyholder

FICA and W-2 Reporting Service Agreement (STD & SDI)

This service is offered at an additional cost. If elected:

The Standard's Responsibilities

- Pay the employer's matching share of STD/SDI Benefit Social Security and Medicare Tax (for taxable benefits).
- Prepare and distribute Form W-2 tax statements reporting STD/SDI Benefit information as required.
- Report disability benefits on Form 941.

Note: The Standard does not assume responsibility for paying or reporting Federal Unemployment (FUTA) Tax or State Unemployment (SUTA) Tax or any other payroll taxes associated with the STD/SDI benefits under the policy.

Fee for Service

As a fee for this service, the policyholder's STD/SDI premium rate will be increased.

- Taxable/Partially Taxable/Tax Choice plans — 8.5% load to premium
- Non-Taxable plans — 2% load to premium
(See page 3 for additional employer reporting details.)

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