



## IMPUTED INCOME AND GROUP LIFE INSURANCE

**Employer Paid Life:** As a general rule, compensation that employees receive for their services will count towards their gross income under IRC Sec 61 – this includes fringe benefits such as Life insurance. However, Section 79 of the IRC provides an exclusion that allows for the first \$50,000 of employer paid Life insurance to be excluded from the employee’s imputed income.

While the first \$50,000 can be excluded, the cost of coverage for employer provided Life insurance in excess of \$50,000 must be included in the employee’s income and reported on the employee’s W-2 as imputed income. Employers then use the IRS Table I to determine the value of the Employer Paid Life insurance for purposes of calculating the imputed income.

**Additional Voluntary Life:** There are two circumstances in which employee-paid life insurance can be subject to imputed income.

1. If the voluntary life rates “straddle” Table I then the amount of Life insurance over \$50,000 is subject to imputed tax income. That means that Employer Paid Life + Voluntary Life amounts in excess of \$50,000 may be subject to imputed income.

Straddling occurs when one employee is paying premium rates above the Table I rates and another employee is paying rates below the Table I rates. For example, the Table I rates for age 40–44 is \$0.10 per \$1,000 of coverage. If you have two employees in that age group and one is paying \$0.08 and another is paying \$0.13 then the plan straddles Table I.

2. If voluntary life premiums are being paid on a pre-tax basis through a Section 125 plan then there are tax consequences. This situation involves extra consideration – the taxes paid on the amount in excess of the total \$50,000 via the Sec 125 plan will be the greater of the employee’s contributions toward the coverage or the Table I cost. That means that if employee pays premiums that are higher than the Table I cost, the entire amount of their premium will be added back to their gross income thus negating any savings from paying with pre-tax dollars.

**Employer Paid Dependent Life:** The cost of employer-paid dependent life coverage may also be subject to imputed income tax under certain circumstances. If the face value of the dependent coverage does not exceed \$2,000 then the benefit will be considered “de minimis” and not subject to the imputed income. However, if the coverage is in excess of \$2,000, then the entire dependent life benefit amount, not just the amount above \$2,000, would be subject to imputed income.

**TABLE I**

AGE	COST per \$1,000 for 1 month
Under age 25	.05
25 to 29	.06
30 to 34	.08
35 to 39	.09
40 to 44	.10
45 to 49	.15
50 to 54	.23
55 to 59	.43
60 to 64	.66
65 to 69	1.27
70 and Over	2.06