GROUP TERM LIFE INSURANCE FAQs

Pursuant to Internal Revenue Code Section 79, the Internal Revenue Service (IRS) considers employer-provided term life insurance for employees a benefit that is taxable as imputed income. Imputed income is the addition of the value of fringe benefits to an employee’s taxable wages in order to properly withhold income and employment taxes from the wages.

Although group term life insurance under The State of Georgia Flexible Benefits Plan (Flex Plan) is a contributory plan, it is subject to the Section 79 tax rules. There are four separate programs under the Flex plan: Employee Life, Spouse Life, Child Life and Accidental Death. The imputed income calculation is slightly different depending on the specific program. For Employee Life program, imputed income is the taxable value of group life coverage in excess of $50,000. For Spouse Life program, if the spouse coverage is greater than $2,000, then the entire value must be included in the employee’s income. Based on current plan provisions, Child Life coverage and Accidental Death do not trigger any imputed income calculations.

1. **How is the taxable value of Group Term Life Insurance (GTL) determined?** The taxable value of GTL is determined using the IRS Uniform Premium Cost Table, commonly referred to as Table I. The table quotes a value per $1000 of coverage based on the employee’s age as of December 31 of the current calendar year. For employee life coverage, the cost or taxable value of employer-provided group term life insurance that exceeds $50,000, less any amount the employee pays for coverage in any year with after-tax dollars, must be included in the employee’s taxable compensation for the year.

2. **Does the monthly administrative fee impact the imputed income calculation?** Yes. There is a monthly administrative fee of $.90 that is added to each program’s (e.g., Employee Life, Spouse Life, etc.) contribution rate. The monthly administrative fee is considered part of the amount the employee pays for monthly coverage and serves to reduce the overall imputed income amount, if calculated on an after-tax basis.

3. **How is imputed income treated for payroll tax purposes?** GTL imputed income is subject to withholding for social security and Medicare taxes (commonly referred to as FICA taxes). Although federal and state income taxes are not withheld, imputed income is reported as taxable federal and state income on Form W-2. GTL is not subject to FUTA tax.

4. **Where will imputed income impacts appear on my pay check?** For PeopleSoft agencies, the Employee Life imputed income will appear in the “Employer-Paid Benefits” section of employee pay check. The Spouse Life imputed income will appear in the “Earnings” section of the employee pay check. For all other agencies, it would depend on the payroll system.

5. **What are W-2 reporting requirements?** The imputed income must be included in Boxes 1 and 16 of the employee’s Form W-2 and in Box 12 with Code C. In addition, the value must be included in Boxes 3 and 5 for social security and Medicare wages, and the taxes withheld should be reported in Boxes 4 and 6.
6. **How is the amount of the employee's taxable compensation calculated?** The amount of taxable income on coverage in excess of $50,000 is referred to as “imputed income.” The annual imputed income calculation is figured for each employee using the following formula:

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\text{(Total group term coverage - $50,000)} / 1,000 \times \text{Table 1 rate} \times \text{employee's age} \times 12 \text{ months} \text{ minus employee after-tax life insurance contributions for the year.}
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Note that the cost of the coverage for the imputed income calculation is based on the Table I rate, not the contribution rate the employee is actually paying to the insurer.

**Example:** Assume that an employee is 56 years old, earns $65,000 per year. Assume the employee's plan is 2x salary. The employee contributes $.80 per month toward the cost of life insurance, plus $.90 administrative fee for a total monthly contribution of $1.70.

The employee's life insurance benefit is $130,000 ($65,000 x 2) minus $50,000 = $80,000, the amount on which the employee must pay imputed income taxes.

To calculate how much imputed income will apply to the employee, divide $80,000 by $1,000 (rates are per thousand), then multiply by .43 (from Table 1 rates) = $34.40 per month. $34.40 per month/$412.80 per year is the imputed income for this employee. Since the employee life program contributions are defaulted to pre-tax unless the employee elects as after-tax, usually there will be no employee contributions subtracted from Table I amounts.
SPouse Life Insurance

Generally, if the coverage amount exceeds $2,000 per covered dependent, the cost of the coverage, less the employee’s contribution is considered taxable income. The cost of this coverage is again determined by using Table I rates. The $50,000 exclusion for employee coverage does not apply.

Is the spouse’s age considered in the imputed income calculation for the spouse life plan?
Yes. Under current plan operations, the taxable value of the benefit using Table I rates is based on the spouse’s birth date as of December 31 of the calendar year. The employee contribution rate that is used to offset the taxable benefit amount is based on the employee’s age at October prior to the plan year.

For examples of spouse life imputed income calculations please refer to the Examples of Imputed Income for Spouse Life.