

Date: November 2011

To: Health Trust Employers - Please forward a copy to your Finance/Payroll Department
From: Sarah D. Ledoux, Controller
Re: Life Insurance Tax Information

In 1996, the Health Trust received a "private letter ruling" from the IRS in regard to the taxable aspects of the Basic and Supplemental Life Insurance plans. This ruling was requested by the Health Trust and two of its members. Technically, the ruling applies to these two members only, but the information is the same for all Trust members.

The ruling essentially states that the purchase of Supplemental Life insurance by an employee will result in no taxable income, irrespective of the amount, because the Basic Life and Supplemental Life plans offered by the Trust are two separate plans.

Listed below is a summary of the year-end tax reporting requirements for employers who provide life insurance to their employees:

- A. **Employees (including retirees): The cost of any employer-paid group term life insurance in excess of \$50,000 must be reported as part of an employee's income. (This includes the life coverage under the Health Plan and any other employer-paid life insurance coverage.) The calculation of taxable amount is explained below along with the IRS Rate Table.**
- B. **Dependents:** The cost of an employer-paid group term dependent life insurance of \$2,000 or less is not includible in the employee's income. If the amount provided is more than \$2,000, the cost of the coverage is includible in the employee's taxable income based on Table 1.
- C. **Tax Withholding & Reporting:** To the extent that the cost of group term life insurance is included in an employee's taxable income both Social Security and Medicare FICA taxes must be withheld. Includible amounts are not subject to federal or state income tax withholding, but must be reported on Form W-2. *(consult with your payroll service or software provider to see if this calculation can be done as part of your regular payroll processing!)*
- D. Table 1 below is published by the IRS and gives you uniform premiums for \$1,000 of group term life insurance. The "age" refers to the employee's age on the last day of the taxable year.

To compute the cost of excess coverage:

- (1) Total the life coverage in force for each month of the year. From this total, deduct \$50,000 for the same number of months (up to \$600,000). This is the "Life Excess" for consideration of possible taxable income;
- (2) Determine the employee's age at year-end and apply the appropriate rate to the "Life Excess" computed in Step 1;
- (3) Determine the employee's contributions for the year, only if contributions are made as an after tax deduction. If contribution is before taxes, no credit is allowed.
- (4) If the amount in Step 3 is more than the amount in Step 2, there is **NO** taxable income. If the amount in Step 3 is less than the amount in Step 2, then the difference represents the amount to be added to the W-2 taxable income.
- (5) The amount should included in all boxes related to taxable income on the W-2, such as in Boxes 1, 3, 5, 16 and also entered in box 12 with code C.

2011	
Table 1	
Cost per \$1,000	
Age	eff 7/1/99
under 25	0.05
25 to 29	0.06
30 to 34	0.08
35 to 39	0.09
40 to 44	0.10
45 to 49	0.15
50 to 54	0.23
55 to 59	0.43
60 to 64	0.66
65 to 69	1.27
70 and above	2.06

EXAMPLES OF CALCULATIONS ARE SHOWN ON THE BACK SIDE OF THIS PAGE

If you should have any questions, please don't hesitate to call me at 1-800-452-8786

MMEHT Letter re: Life Insurance Tax Information

EXAMPLE ONE NO EMPLOYEE CONTRIBUTION TO HEALTH COVERAGE Employee Age at End-Of-Year Enter amount of life coverage included in Health Premium Less: \$50,000 per month Excess amount of insurance Number of months at this coverage Total coverage in excess of \$50,000 for the year Divide this amount by \$1,000 Multiply by cost per \$1,000 per Table 1 Cost of excess life insurance for entire tax year - Total Included in Income	JANUARY TO JUNE	JULY TO DECEMBER		
		52		
		\$60,000	\$62,500	
		50,000	50,000	
		\$10,000	\$12,500	
		6	6	
		60,000	75,000	135,000
				135.00
				0.23
				\$31.05

THIS AMOUNT IS LISTED ON EACH OF THE HEALTH TRUST'S MONTHLY BILLINGS

HEALTH CONTRIBUTION IS AN "AFTER TAX" DEDUCTION

HEALTH CONTRIBUTION IS A "BEFORE TAX" DEDUCTION

EXAMPLE TWO EMPLOYEE CONTRIBUTES PERCENTAGE TO HEALTH COVERAGE Employee Age at End-Of-Year Basic Coverage (included with Health Premium) percentage employee pays for Single Coverage amount of insurance paid by employee Coverage Provided By Employer Less: \$50,000 per month Excess amount of insurance Number of months at this coverage Cost of excess life insurance for entire tax year Divide this amount by \$1,000 Multiply by cost per \$1,000 per Table 1 Total Included in Income	JANUARY TO JUNE	JULY TO DECEMBER		
		52		
		\$60,000	\$62,500	
		10%	10%	
		\$6,000	\$6,250	
		\$54,000	\$56,250	
		50,000	50,000	
		\$4,000	\$6,250	
		6	6	
		24,000	37,500	61,500
			61.50	
			0.23	
			\$14.15	

JANUARY TO JUNE	JULY TO DECEMBER	
	52	
\$60,000	\$62,500	
NO CREDIT ALLOWED		
\$0	\$0	
\$60,000	\$62,500	
50,000	50,000	
\$10,000	\$12,500	
6	6	
60,000	75,000	135,000
		135.00
		0.23
		\$31.05

EXAMPLE THREE EMPLOYEE CONTRIBUTES FIXED AMOUNT TO HEALTH COVERAGE Employee Age at End-Of-Year Enter amount of life coverage included in Health Premium Less: \$50,000 per month Excess amount of insurance Number of months at this coverage Divide this amount by \$1,000 Multiply by cost per \$1,000 per Table 1 Cost of excess life insurance for entire tax year Less: Amount paid by employee toward Single Coverage Total Included in Income (if contribution exceeds cost of excess amount = 0)	JANUARY TO JUNE	JULY TO DECEMBER		
		52		
		\$60,000	\$62,500	
		50,000	50,000	
		\$10,000	\$12,500	
		6	6	
		60,000	75,000	135,000
				135.00
				0.23
				\$31.05
	Amount	# of Paydays		
	\$5.00	26	130.00	
			\$0.00	

JANUARY TO JUNE	JULY TO DECEMBER	
	52	
\$60,000	\$62,500	
50,000	50,000	
\$10,000	\$12,500	
6	6	
60,000	75,000	135,000
		135.00
		0.23
		\$31.05
	Amount	# of Paydays
		26
NO CREDIT ALLOWED		
		\$31.05

EXAMPLE ONE NO EMPLOYEE CONTRIBUTION TO DEPENDENT COVERAGE Dependent Age at End-Of-Year Enter amount of life coverage included in Health Premium Less: \$2,000 per month Excess amount of insurance Number of months at this coverage Total coverage in excess of \$2,000 for the year Divide this amount by \$1,000 Multiply by cost per \$1,000 per Table 1 Cost of excess life insurance for entire tax year - Total Included in Income	JANUARY TO JUNE	JULY TO DECEMBER		
		63		
		\$50,000	\$50,000	
		2,000	2,000	
		\$48,000	\$48,000	
		6	6	
		288,000	288,000	576,000
				576.00
				0.66
				\$380.16

JANUARY TO JUNE	JULY TO DECEMBER	
	63	
\$50,000	\$50,000	
2,000	2,000	
\$48,000	\$48,000	
6	6	
288,000	288,000	576,000
		576.00
		0.66
		\$380.16
		\$106.44

EMPLOYER pays full cost of \$3.20 per mth

Annual Cost	\$38.40
	\$137.14