

To: **Health Trust Employers - Please forward a copy to your Finance/Payroll Department**
 From: Lisa Wilson, 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. IRS Guidance from Publication 15-B Employer's Tax Guide to Fringe Benefits.**
- 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 and also entered in box 12 with code C.

2023	
Table 1	
Cost per \$1,000 of Protection for 1 Month	
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.

	JANUARY TO JUNE	JULY TO DECEMBER	
	EXAMPLE ONE NO EMPLOYEE CONTRIBUTION TO HEALTH COVERAGE		
Employee Age at End-Of-Year		46	
Enter amount of life coverage included in Health Premium	\$67,000	\$69,000	
Less: \$50,000 per month	50,000	50,000	
Excess amount of insurance	\$17,000	\$19,000	
Number of months at this coverage	6	6	
Total coverage in excess of \$50,000 for the year	102,000	114,000	216,000
Divide this amount by \$1,000			216.00
Multiply by cost per \$1,000 per Table 1			0.15
Cost of excess life insurance for entire tax year - Total Included in Income			\$32.40

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

	JANUARY TO JUNE	JULY TO DECEMBER	
	EXAMPLE TWO EMPLOYEE CONTRIBUTES PERCENTAGE TO HEALTH COVERAGE		
Employee Age at End-Of-Year		46	
Basic Coverage (included with Health Premium)	\$67,000	\$69,000	
percentage employee pays for Single Coverage	10%	10%	
amount of insurance paid by employee	\$6,700	\$6,900	
Coverage Provided By Employer	\$60,300	\$62,100	
Less: \$50,000 per month	50,000	50,000	
Excess amount of insurance	\$10,300	\$12,100	
Number of months at this coverage	6	6	
Cost of excess life insurance for entire tax year	61,800	72,600	134,400
Divide this amount by \$1,000			134.40
Multiply by cost per \$1,000 per Table 1			0.15
Total Included in Income			\$20.16

	JANUARY TO JUNE	JULY TO DECEMBER	
Employee Age at End-Of-Year		46	
Basic Coverage (included with Health Premium)	\$67,000	\$69,000	
NO CREDIT ALLOWED	\$0	\$0	
Coverage Provided By Employer	\$67,000	\$69,000	
Less: \$50,000 per month	50,000	50,000	
Excess amount of insurance	\$17,000	\$19,000	
Number of months at this coverage	6	6	
Cost of excess life insurance for entire tax year	102,000	114,000	216,000
Divide this amount by \$1,000			216.00
Multiply by cost per \$1,000 per Table 1			0.15
Total Included in Income			\$32.40

	JANUARY TO JUNE	JULY TO DECEMBER	
	EXAMPLE THREE EMPLOYEE CONTRIBUTES FIXED AMOUNT TO HEALTH COVERAGE		
Employee Age at End-Of-Year		46	
Enter amount of life coverage included in Health Premium	\$67,000	\$69,000	
Less: \$50,000 per month	50,000	50,000	
Excess amount of insurance	\$17,000	\$19,000	
Number of months at this coverage	6	6	
Total coverage in excess of \$50,000 for the year	102,000	114,000	216,000
Divide this amount by \$1,000			216.00
Multiply by cost per \$1,000 per Table 1			0.15
Cost of excess life insurance for entire tax year			\$32.40
Less: Amount paid by employee toward Single Coverage	Amount \$5.00	# of Paydays 26	130.00
Total Included in Income (if contribution exceeds cost of excess amount = 0)			\$0.00

	JANUARY TO JUNE	JULY TO DECEMBER	
Employee Age at End-Of-Year		46	
Basic Coverage (included with Health Premium)	\$67,000	\$69,000	
Less: \$50,000 per month	50,000	50,000	
Excess amount of insurance	\$17,000	\$19,000	
Number of months at this coverage	6	6	
Total coverage in excess of \$50,000 for the year	102,000	114,000	216,000
Divide this amount by \$1,000			216.00
Multiply by cost per \$1,000 per Table 1			0.15
Cost of excess life insurance for entire tax year			\$32.40
Less: Amount paid by employee toward Single Coverage	Amount	# of Paydays	
NO CREDIT ALLOWED			
Total Included in Income			\$32.40

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

\$106.44

EMPLOYER pays full cost of \$3.20 per mth
Annual Cost **\$38.40**
\$137.14