

## What is imputed income for Group–Term Life Insurance

### **Total Amount of Coverage**

IRC section 79 provides an exclusion for the first \$50,000 of group-term life insurance coverage provided under a policy carried directly or indirectly by an employer. There are no tax consequences if the total amount of such policies does not exceed \$50,000. Amounts of coverage in excess of \$50,000 must be included in income, using the IRS Premium Table, and are subject to social security and Medicare taxes.

### **Carried Directly or Indirectly by the Employer**

A taxable fringe benefit arises if coverage exceeds \$50,000 and the policy is considered carried directly or indirectly by the employer. A policy is considered carried directly or indirectly by the employer if:

1. The employer pays any cost of the life insurance, or
2. The employer arranges for the premium payments and the premiums paid by at least one employee subsidize those paid by at least one other employee (the “straddle” rule).

The determination of whether the premium charges straddle the costs is based on the IRS Premium Table rates, **not** the actual cost.

Because the employer is affecting the premium cost through its subsidizing and/or redistributing role, there is a benefit to employees. This benefit is taxable even if the employees are paying the full cost they are charged. You must calculate the taxable portion of the premiums for coverage that exceeds \$50,000.

### **Coverage for Spouse and Dependents**

The cost of employer-provided group-term life insurance on the life of an employee’s spouse or dependent, paid by the employer, is not taxable to the employee if the face amount of the coverage does not exceed \$2,000. This coverage is excluded as a de minimis fringe benefit.

Whether a benefit provided is considered de minimis depends on all the facts and circumstances. In some cases, an amount greater than \$2,000 of coverage could be considered a de minimis benefit. See Notice 98-110 for more information.

If part of the coverage for a spouse or dependents is taxable, the same Premium Table is used as for the employee. The entire amount is taxable, not just the amount that exceeds \$2,000.

The above text was extracted from the Internal Revenue Service web site  
<http://www.irs.gov/govt/kslg/article/0,,id=110345,00.html>