

# What you need to know about. . .

## Taxation of Employer-Paid Life Insurance

The tax rules for employer-paid life insurance are convoluted, to say the least. Unfortunately, they are also frequently misunderstood or overlooked entirely by employers. While we aren't accountants and can't really provide tax advice, it is possible to provide some general information to help you navigate this confusing topic.

### Overview of Tax Treatment

The main thing to know is that the tax implications of employer-paid life insurance are different depending on whether the coverage is provided for employees, their spouses and/or dependents, or their domestic partners. Here's a quick rundown of the differences:

- **Employee Coverage.** Employers can provide group term life insurance that is tax-free for employees if the value of the coverage doesn't exceed \$50,000. In other words, the cost of the coverage does not have to be added (or "imputed") to the employee's gross income for the year. To the extent the employer pays for an employee's life insurance in excess of \$50,000, the cost of the excess coverage must be imputed to the employee as taxable income.
- **Coverage for Spouses/Dependents.** Coverage provided for an employee's spouse and/or dependents is treated similarly, except that for the premiums to be non-taxed the coverage provided must be de minimis (generally no more than \$2,000 per person).
- **Domestic Partner Coverage.** Life insurance for domestic partners who qualify as a tax dependent is treated the same as life insurance for spouses. A domestic partner might be a dependent if he or she has very little income, lives with the employee, and can't be claimed as anyone else's dependent. If a domestic partner does not qualify as the employee's tax dependent, the entire cost of the life insurance would be imputed as income to the employee.

### Calculating Imputed Income

The amount of income imputed to a given employee is calculated using an IRS table that sets the value for \$1,000 of group term life coverage, by age (for example, \$.10 per \$1,000 of coverage for a 40 to 44 year old). You would not generally use the actual premiums you paid. If the employee pays the entire premium or premiums for the excess coverage (above \$50,000 for employee coverage or above \$2,000 for spouse/dependent/domestic partner coverage), then there would be no imputed income.

### Final Thoughts

Finally, note that there are nondiscrimination requirements for employer-sponsored life insurance similar to those that apply to a self-insured group health plan. While the rules are complicated, most employers can meet them by: a) offering coverage to all employee classes; and b) either offering a flat amount to all employees or tying the coverage amount to each employee's compensation.

For additional information about the taxation of life insurance and other fringe benefits, see IRS Publication 15-B (Employer's Tax Guide to Fringe Benefits) and/or consult your tax advisor.



The Miller Group's compliance director Julie Athey, is a licensed attorney with many years of experience in interpreting state and federal employment laws such as ERISA, COBRA, the ACA, FMLA and ADA. She frequently writes and speaks on legal and regulatory topics and has earned a reputation for being able to simplify complex concepts. If you have questions, feel free to contact Julie at [juliea@millercare.com](mailto:juliea@millercare.com).