

Time to Impute!

Make Sure to Impute Income on Group Term Life Insurance Before Year-End

By [Chrystine M. Heier, CEBS, LIA](#)

President, Sullivan Benefits

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Employees with employer provided group term life insurance are required to pay taxes on the value of benefits in excess of \$50,000. Federal law requires employers to impute income on the value of these benefits to the employee; some employers impute income on group term life insurance coverage during the year, while others wait until the end of the year. We generally recommend to impute the value during the year; however, if you do so at year-end - now is the time to begin compiling your information for reporting on employee W-2s, withholding and payment before year-end.

The value of group term life insurance must be determined via IRS **Table I rates** (not what an employer actually pays for coverage); these rates do not index for inflation and will not change unless the IRS revises them.

How to Determine Amount of Imputed Income

1. **100% Employer-Paid Benefit – Face Amount less \$50,000 times the applicable Table I rate. For example:** Jane Doe, age 45, has \$200,000 of employer-paid life insurance with Annual Imputed Income totaling \$270 determined as follows:

- \$200,000 Face Amount less \$50,000 = **\$150,000 of coverage to impute**
- **Monthly Rate from Table I = \$0.15** per \$1,000 of coverage
- **$\$0.15 \times \$150 (\$150,000/\$1,000) \times 12 = \$270$**
- W-2s: Include \$270 in boxes 1, 3, 5, and in box 12 with code "C"

2. **Employee Pays All or a Portion with After-Tax Dollars – Table I Imputed Income Cost of all coverage above \$50,000 less Employee's After-Tax Contributions. For example:** Jane Doe above with \$200,000 of life insurance which she pays 50% of the cost has Total Annual Imputed Income of \$95:

- **IRS Imputed income is \$270** (see above).
- Employee paid **Annual after-tax contributions of \$175** (50% of Actual Cost)
- **$\$270 - \$175 = \$95$**
- W-2s: Include \$95 in boxes 1, 3, 5, and in box 12 with code "C"

AGE as of 12/31/20	MONTHLY RATE/1,000
Under 25	\$0.05
25 – 29	\$0.06
30 - 34	\$0.08
35 - 39	\$0.09
40 - 44	\$0.10
45 - 49	\$0.15
50 - 54	\$0.23
55 - 59	\$0.43
60 – 64	\$0.66
75 - 69	\$1.27
70+	\$2.06

What About Employer Paid Dependent Life?

Employer paid dependent life insurance is taxable unless the amount of the insurance is considered de minimus (less than \$2,000). If the coverage exceeds \$2,000, the full amount of the dependent life insurance is taxable, including the first \$2,000.

Questions?

Please reach out to any member of the [Sullivan Benefits Team](#) with any questions, requests for materials or more information. Click [here](#) for FAQs and more information on Imputed Income.

This document not intended to be exhaustive nor should any discussion or opinions be construed as legal advice; contact your legal counsel for legal advice.

