Group Term Life Taxation
Internal Revenue Code Section 79 Requirements

Group Term Life Taxable Income

In general, Section 79 of the Internal Revenue Code (IRC) exempts from tax the first $50,000 of employer-provided group term life benefit for active and retired employees in nondiscriminatory* plans. Employee-paid, permanent life insurance such as Group Universal Life is not usually subject to Section 79.

Table I is used to calculate the cost of group term life amounts in excess of $50,000. The cost of these excess life amounts is offset by any after-tax employee contributions. The amount remaining is included in the employee's taxable income. As a practical matter, few employees have taxable income to report, since most plans require employee contributions that more than offset the cost determined in Table I (see below).

On June 3, 1999, the Internal Revenue Service (IRS) published final regulations that update the Uniform Premium Table (Table I). The Table I rates (shown below) are effective for cost calculations applying to time periods beginning on or after July 1, 1999. The IRS periodically updates Table I, according to changes in national mortality rates. The rates can also be found in IRS Publication 15-B at www.irs.gov.

TABLE I. -- Uniform Premiums for $1,000 of Group Term Life Insurance Protection as set by the IRS

5-year age bracket	Cost per $1,000 of protection for one month
Under 25	.05
25-29	.06
30-34	.08
35-39	.09
40-44	.10
45-49	.15
50-54	.23
55-59	.43
60-64	.66
65-69	1.27
70 & above	2.06

Straddling Table I

"Straddling" is a term used to describe a situation in which the employer sponsoring the life benefit charges one or more employee(s) less than the applicable Table I rate (shown above), and one or more employee(s) more than the Table I rate.

Straddling can have negative tax implications, especially for employees with supplemental term life coverage exceeding the $50,000 exemption. This is because straddling can result in even a 100% employee-paid life policy being brought under Section 79 as an employer-provided plan.

Plan sponsors of supplemental term life coverage straddling Table I may want to review tax implications and possible alternatives with their supplemental term carrier.

Calculating Taxable Income

The cost of taxable life insurance amounts is calculated on a month-by-month basis, as follows:

Step 1: Enter Table I rate at the person's attained age on the last day of the taxable year.
Step 2: Multiply the per thousand Table I rate by the number of thousands in taxable life benefit.
Step 3: Subtract any monthly employee contributions.
Step 4: Add together each month's calculation to determine the total reportable amount for the tax year.

For example, an employee age 42 (on 12/31/10) has $75,000 in group life benefit during the 2010 tax year. The employee contributes $2.00 per month. The Table I cost for $25,000 worth of life insurance ($75,000 less the $50,000 exemption) less any employee contributions must be included in taxable income on a W-2 (not subject to income tax withholding or FUTA, but FICA tax must be withheld at least once per year).

Calculate each month as follows:

Step 1: Table I rate at age 42 is $.10
Step 2: 25 x .10 = $2.50 (excess coverage x Table I rate)
Step 3: $2.50 - $2.00 = $.50 (minus employee contribution)
Step 4: $.50 totaled for Jan>Dec. 2010 (x 12 mo.) is **$6.00**

The same method for determining taxable income generally applies to **dependent life** benefits. However, there is no $50,000 exclusion. IRS Announcement 89-110 exempts dependent life benefits of $2,000 or less in most plans. Employee contributions usually offset dependent life Table I costs so there is little income to report. Employers paying all dependent life costs should seek tax advice on reporting minimal amounts of income on an employee's W-2.

Announcement 89-110 also stated that **dependent life** was no longer considered a fringe benefit under Section 125. Consequently, employers have not been able to include dependent life in their cafeteria plan offerings since 1991. Any questions regarding specific reporting requirements for dependent life benefits should be referred to your tax advisor.

Nondiscrimination Rules

*Nondiscrimination rules under Section 79 are satisfied when plans do not favor key employees in either eligibility to participate or the types and amount of benefits available under the plan. Normally, a plan is not discriminatory if either 70% or more of employees are eligible for the plan or 85% or more of plan participants are not key employees (Eligibility Test).

Generally, the plan is not discriminatory with respect to the type and amount of benefits if the benefit schedule is based on a uniform percentage of compensation or a fixed amount for all participants (Benefits Test).

This information is not intended as legal or tax advice. Employers should consult their own tax advisors for specific compliance information and assistance regarding their plans.