IRS

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. The imputed cost 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. You can view the Premium Table in the group-term life insurance discussion in Publication 15-B.

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.

Not Carried Directly or Indirectly by the Employer

A policy that is not considered carried directly or indirectly by the employer has no tax consequences to the employee. Because the employees are paying the cost and the employer is not redistributing the cost of the premiums through an insurance system, the employer has no reporting requirements.

Example 1 - All employees for Employer X are in the 40 to 44 year age group. According to the IRS Premium Table, the cost per thousand is .10. The employer pays the full cost of the insurance. If at least one employee is charged more than .10 per thousand of coverage, and at least one is charged less than .10, the coverage is considered carried by the employer. Therefore, each employee is subject to social security and Medicare tax on the cost of coverage over $50,000.

Example 2 - The facts are the same as Example 1, except all employees are charged the same rate, which is set by the third-party insurer. The employer pays nothing toward the cost. Therefore there is no taxable income to the employees. It does not matter what the rate is, as the employer does not subsidize the cost or redistribute it between employees.

Coverage Provided by More Than One Insurer

Generally, if there is more than one policy from the same insurer providing coverage to employees, a combined test is used to determine whether it is carried directly or indirectly by the employer. However, the Regulations provide exceptions that allow the policies to be tested separately if the costs and coverage can be clearly allocated between the two policies. See Regulation 1.79 for more information.

If coverage is provided by more than one insurer, each policy must be tested separately to determine whether it is carried directly or indirectly by the employer.

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 89-110 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.

Example 3 - A 47-year old employee receives $40,000 of coverage per year under a policy carried directly or indirectly by her employer. She is also entitled to $100,000 of optional insurance at her own expense. This amount is also considered carried by the employer. The cost of $10,000 of this amount is excludable; the cost of the remaining $90,000 is included in income. If the optional policy were not considered carried by the employer, none of the $100,000 coverage would be included in income.

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Table 2-2. Cost Per $1,000 of Protection for 1 Month

Age	Cost
Under 25	$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and older	2.06