

TAXATION OF GROUP LIFE INSURANCE SECTION 79 OF THE INTERNAL REVENUE CODE (IRC)

Under the Internal Revenue Code (IRC) some employer provided benefits are included in taxable income. The taxable income on these benefits is imputed income and must be included in the employee's earnings.

Section 79(a) provides a limited tax break to employees insured under an employer provided group-term life plan. Here is a brief summary of section 79(a):

1. Employer-paid group life insurance coverage up to \$50,000 is not taxable to the employee.
2. Key employees lose the tax exemption for the cost of group-term life coverage up to \$50,000 if the plan discriminates in their favor; non-key employees would still get the benefit of the exclusion. The IRS defines the term "key employee" in Section 416 (i) of the Internal Revenue Code.
3. The cost of coverage in excess of \$50,000 is regarded as taxable income to the employee if the employer has paid for it. This cost of coverage is not the premium cost, but is the value based on Table 1 rates provided by the IRS.
4. If employees pay for the cost of coverage in excess of \$50,000 it is not taxable income.

Note: Partners and others who are treated as partners for income tax purposes, e.g. 2% shareholders of an S-Corporation and members (owners) of a Limited Liability Company, are not eligible for this \$50,000 tax break.

Imputed income for the amounts in excess of \$50,000 life insurance must be included in an employee's gross (taxable) income. The imputed income is determined by multiplying the employee's group term life insurance coverage in excess of \$50,000 by the Table I rates below.

Age Group	Table I Cost per \$1,000 of Protection per month
Under 25	.05
25 to 29	.06
30 to 34	.08
35 to 39	.09
40 to 44	.10
45 to 49	.15
50 to 54	.23
55 to 59	.43
60 to 64	.66
65 to 69	1.27
70 and above	2.06

Example:

An employee is age 36 and is insured for \$185,000 of employer paid life insurance. The imputed income is calculated on the amount over \$50,000 multiplied by the Table 1 cost per \$1,000.

$\$185,000 - \$50,000 = \$135,000$. $135 \times .09 = 12.15$ imputed income per month. This monthly amount should be added to the employee's gross income.