

Taxable Treatment of State Group Life Premiums On Coverage In Excess of \$50,000

The Internal Revenue Service Code Section 79 limits the tax-free treatment of State Group Life insurance premiums (excluding Spouse and Dependent) under the Automatic Premium Conversion component of the Employee Reimbursement Account (ERA) program when total plan coverage exceeds \$50,000. Premiums on coverage in excess of \$50,000 are assessed a tax liability that is offset by payroll deducted premiums (see example below).

The tax liability is assessed on the total state group life insurance plan coverage (Basic + Supplemental + Additional) that is over \$50,000 regardless of ERA participation. If the employee-paid premium is greater than the tax liability, the excess premium over the liability can be deducted on a pre-tax basis under the ERA program. For most people, the tax liability is more than offset by the employee-paid premium amounts.

The taxable portion of coverage over \$50,000 is computed using an IRS table of life insurance costs per \$1,000 of coverage based on age. Use the age that was attained as of the last day of the current calendar year when looking up the Tax Liability cost and the State Group Life Insurance cost per thousand.

Tax Liability on Life Coverage over \$50,000 Per \$1,000 of Coverage Per Month

<u>AGE</u>	<u>COST</u>	<u>AGE</u>	<u>COST</u>
Under 25	\$0.05	50-54	\$0.23
25-29	\$0.06	55-59	\$0.43
30-34	\$0.08	60-64	\$0.66
35-39	\$0.09	65-69	\$1.27
40-44	\$0.10	70 & Over	\$2.06
45-49	\$.015		

Example: Calculation of Tax-Free Life Premium Amount

1. Age as of March 1 of Current Calendar Year	36		
2. Annual Wages	\$25,000		
3. State Group Life Coverage	\$75,000		
4. Premium Deducted—Basic	$\$25,000 \times \$.05$		\$1.25
5. Premium Deducted 100% supplemental	$\$25,000 \times \$.05$		\$1.25
6. Premium Deducted Additional	$\$25,000 \times \$.07$		\$1.75
7. Total Premium (4+5+6)			\$4.25
8. IRS Tax Liability Per Chart	$\$75,000 - \$50,000 = \$25,000 \times .09$		\$2.25
9. Premium Deducted Pre-Tax (7-8)			\$2.00

State Group Life Premium Rates can be found at: <http://www.bussvc.wisc.edu/ecbs/emp-prem-sgl.1>

In this example, the employee's monthly life insurance premium deduction is \$4.25 of which \$2.25 is used to offset the Section 79 tax liability leaving \$2.00 of the premium to be deducted on a pre-tax basis.

If an employee has a tax liability the full year's liability is noted in box 12c of the employee's W2 form.