

Group Term Life Insurance (GTL)

District Paid Group Term Life Insurance

The cost of district-provided group term life insurance (which includes cafeteria plans) in excess of \$50,000 is reported as "other compensation" in Box 1, 3, 5, 16, and Box 12 Code C on the W-2 statement. Include reportable dependent GTL insurance and check the exclusions described below. These excesses are subject to Social Security and/or Medicare tax and are reported in Box 3 and Box 5.

Reportable cost is based on a table of uniform premiums prescribed by the IRS. See [table below](#) along with an example for determining the reportable cost. The calculation process allows for the subtraction of any amount paid by the employee toward the purchase of the insurance.

Employer provided group term life insurance for dependents of employees is tax free up to \$2,000. If the amount exceeds \$2,000, the **ENTIRE** amount would be subject to the calculation in the same manner as for the employee (subtract any employee payroll deduction for dependent GTL). [See table below](#).

HCM allows Group Term Life to be automatically calculated on a per pay period basis for employee's properly enrolled in through benefits administration. This amount will automatically report on the W-2 in box 12 code C.

For any active employees not enrolled in taxable per pay period plans – use reportable code **WGT** and enter the calendar year total.

Terminated Employee - Uncollected Taxes

If the employer failed to collect Social Security and/or Medicare tax for periods on or before the employee's last salary payment, the employer would pay the taxes due and gross-up wages and include in Box 1 and Box 16. The employer may seek reimbursement from the terminated employee. Create a paysheet and enter the reportables code **WG1** and the applicable calendar year amount.

Retired or Former Employee--Continued Coverage

Premiums for "continued coverage" insurance in excess of \$50,000 purchased by the employer for a retired or former employee is subject to Social Security and Medicare taxes. If these taxes are uncollected, they are reported on the W-2 in Box 12 Codes M and N. Create a paysheet and enter the reportables code **WG1** and the applicable calendar year amount.

In either of these situations, the reportable cost is entered in Box 1, 3, 5, and 16.

Exclusions for GTL Reporting

The following are exceptions where the excess GTL coverage would not be taxable to the employee:

- The beneficiary of the policy is the employer for the entire calendar year.
- The beneficiary of the policy is a charitable organization for the entire calendar year.
- The employee terminates during the year due to a permanent disability.

NOTE: Flexible Benefit Plans -- When the GTL insurance in excess of \$50,000 is offered through a **flexible benefit (cafeteria) plan**, the amount includable in gross income (Federal, Social Security, and Medicare taxable income) of the employee who contributes to the cost of the insurance is the greater of:

- The employee's pre-tax contribution toward the purchase of the insurance,
- The insurance cost as determined in the IRS table below.

For more information on GTL, see [IRS Pub.15-B](#) and [525](#).

Other Types of Insurance Premiums

There may be other types of insurance premiums being paid (e.g., whole life or straight life) which are reported as "other compensation". The employer must collect Federal taxes, but Social Security and Medicare taxes do not apply if the plan is intended to benefit employees or their dependents. If the insurance is being purchased as part of a qualified retirement plan, the reporting is done on Form 1099-R not Form W-2.

GROUP TERM LIFE INSURANCE COST PER \$1,000 OF PROTECTION FOR ONE MONTH

<u>*Age</u>	<u>Cost</u>
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
65 - 69	1.27
70 and older	2.06

**Use the employee's age on the last day of the tax year.*

EXAMPLE: Determination of Reportable Cost of excess coverage.

Step 1 Determine excess coverage:

\$105,000	Total Amount of Coverage
<u>(50,000)</u>	Exclusion
\$ 55,000	Excess Coverage

Step 2 Determine from the table the yearly cost per \$1,000 of excess coverage.

According to the table, the monthly cost per \$1,000 coverage for the employee age 53 is \$0.23.

$$\begin{aligned} \$55,000 \times .001 &= \$ 55.00 \\ \$55.00 \times 0.23 &= \$ 12.65/ \text{ month} \\ \$12.65 \times 12 &= \underline{\$151.80 / \text{ year} - \text{Reportable Cost}} \end{aligned}$$

If the employee paid toward the insurance the Reportable Cost would be reduced by that amount.

10-PAY EMPLOYEE	12-PAY EMPLOYEE
$\$151.80 - (10 \times \$5.00) = \underline{\$101.80 \text{ R Cost}}$	$\$151.80 - (12 \times \$5.00) = \underline{\$91.80 \text{ R Cost}}$

Step 3 Report the **Reportable Cost** as wages in Boxes **1, 3, 5** and **16** of the employee's Form W-2. Also, show it in Box **12** with code **C**.