

IMPUTED INCOME

The IRS considers the value of group term life insurance in excess of \$50,000 as income to an employee. This concept is known as “imputed income.” Even though you do not receive cash, you are taxed as if you received cash in an amount equal to the taxable value of the coverage in excess of \$50,000. The taxable value is determined based upon the IRS table below. The amount of your imputed income is automatically calculated for you and added to each paycheck. At the end of the year the imputed income is reported as part of your taxable wages on your W-2 form.

Example 1: Basic life insurance

An employee has a **basic** life insurance policy with his company that has a death benefit of \$150,000, which is paid entirely by his employer. The employee is currently 47 years old. Using the IRS table, this employee would fall into the 45- to 49-year-old range and incur a cost of 15 cents per \$1,000 in coverage.

- Excess coverage = \$150,000 - \$50,000 = \$100,000
- Monthly imputed income = $(\$100,000 / \$1,000) \times .15 = \$15$
- Yearly imputed income = $\$15 \times 12 = \mathbf{\$180}$
- The employer would then include \$180 in the employee's W-2 form at the end of the year.

Age	Monthly cost per \$1,000 in coverage
Under age 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and over	\$2.06

Once the imputed income value of the life insurance more than \$50,000 has been calculated, this tax liability will be added by the employer to the W-2 tax form at the end of the year.