

IMPUTED INCOME



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 imputed income is reported on Form W-2 as taxable wages.

How to Estimate your Group Term Life Insurance Imputed Income

If you have employer-provided group term life insurance coverage above \$50,000, the amount of your imputed income is automatically calculated for you and added to each paycheck. However, you may estimate your own imputed income by following these steps:

1. Record the total amount of your group term life insurance _____
2. Subtract the amount of non-taxable insurance \$50,000
3. Coverage over \$50,000 _____
4. Divide the amount on line 3 by 1,000 _____
5. Enter the annual dollar amount for your age as of the final day of the tax year from the table on right _____
6. Multiply the amount on line 4 by the dollar amount on line 5 to determine the monthly taxable value of your term life insurance over \$50,000 _____
7. This results in your Monthly Imputed Income. Multiply by 12 and then divide by 26 to determine biweekly imputed income. _____

YOUR AGE IN THE CURRENT TAX YEAR	ADDITIONAL MONTHLY TAXABLE INCOME FOR EACH \$1,000 OF TERM LIFE COVERAGE OVER \$50,000
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

Example for person age 50 with \$75,000 coverage

1. Record the total amount of term life insurance \$75,000
2. Subtract the amount of non-taxable insurance \$50,000
3. Coverage over \$50,000 \$25,000
4. Divide the amount on line 3 by 1,000 (\$25,000/1,000) \$25
5. Enter the annual dollar amount for your age from the table \$0.23
6. Multiply the amount on line 4 by the dollar amount on line 5 to determine the taxable value of your term life insurance over \$50,000 (\$25 x .23) \$5.75
7. This results in your Monthly Imputed Income. Multiply by 12 and then divide by 26 to determine biweekly (\$5.75 x 12 divide over 26 pays) per pay = \$2.66

In this example, \$2.66 per pay would be added to the employee’s W-2 wages. Assuming a 20% tax rate, this employee would have an annual impact of \$13.80 in additional taxes.

Your pay stub detail will indicate this amount as “Imputed Income.”

The example on the right is for illustrative purposes only. This discussion (and the tax calculator) is intended to provide general overview of how imputed income based on group term life insurance is calculated. The effect of applicable laws can and do vary, depending on the unique situation of each individual. Therefore, this information should not be construed as legal, accounting, tax or other professional advice. If you need a professional opinion regarding your group term life insurance imputed income, you should consult a qualified tax advisor who understands your particular situation.