Reporting Taxable Amount of Life Insurance Premiums

According to the Internal Revenue Service, the cost of group-term life insurance an employer provides to an employee for coverage over $50,000 is to be included in the wages reported for the employee. This amount is subject to withholding for Social Security and Medicare, but not income tax. The cost is generally determined by using the uniform premium rates provided by the IRS. These rates set the cost of each $1000 of group-term life insurance for each month, according to the employee's age.

The following steps will ensure that the proper amounts will be taxed and placed on the W2 forms.

1. Calculate the taxable amount for each employee involved.

   Example

   A 35 year old principal receives $250,000.00 of board paid group term life insurance for an entire calendar year.
   The amount of excess coverage over $50,000.00 is used to determine the taxable coverage. In this example the amount of taxable coverage would be $200,000.00.

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   $250,000.00 - $50,000 = $200,000.00
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   Using this same figure, it must be determined how many thousands of dollars are involved.

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   $200,000 / $1,000.00 = 200
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   This figure will be used later to determine the annual cost. IRS Publication 15-B gives the cost per $1000.00 of protection for a 1 month period. The cost for this 35 year old is .09 per month. This must be multiplied by the number of months the coverage was in effect.

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   .09 X 12 = $1.08
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   The non-cash earnings amount is calculated by taking the number of thousands and multiplying it by the factor calculated in the previous step.

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   $1.08 X 200 = $216.00
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2. Using the USPSCN/UPDCAL_CUR or USPSCN/UPDCAL_FUT program, the amount should be entered using a pay type of NC1. This pay type represents one kind of non-cash earnings for the employee.
   This pay type will be treated differently for taxation purposes. Using this non-cash earnings amount, the tax amounts for Medicare and Social Security will be calculated during the CALCPAY and UPDCAL_CUR programs.

   No Federal, Ohio, or OSDI tax amounts will be calculated. All of these will be treated according to the federal rules. The software provides the ability to withhold city tax on non-cash earnings. This can be activated by setting the "Tax non-cash earnings" flag to Y (yes) on the city tax record in the USPSDAT/DEDNAM program.

3. Complete the payroll.

   The non-cash earnings amount will not be included in the gross pay amount, nor in the gross totals found on PAYRPT or PAYSUM. However, the non-cash earnings amount is being included in the adjusted gross figure because the amount is considered part of the taxable gross even though no tax is being withheld on it. Both the PAYRPT and PAYSUM reports will provide a total figure of all non-cash earnings in the total section. This extra total will help in balancing purposes.

   During the CHKUPD program, the total payment showing for NC1, will be added to the total and taxable gross figures on all the tax records including those for which no tax was withheld. The JOBSCN to-date figures (screen 3 of 3) will also be updated in the Non-cash earnings fields.

If the NC1 pay not was **not** used prior to the last pay of the calendar year, the following manual procedure must be used in order for the NC1 pay to show correctly on the W2 form and to insure that the QRTRPT balances. Follow these procedures prior to generating W2 forms.

1. Increase the YTD gross and the YTD taxable gross figures on the federal tax record by the amount of the taxable premium.
2. Increase the YTD gross and YTD taxable gross figures on the state tax deduction record to reflect the taxable premium.
3. Increase the YTD gross and the YTD taxable gross figures on the municipality tax deduction record IF required by the municipality. It may be necessary to contact the city tax department to determine if the premiums on life insurance over $50,000 are considered taxable or not.
4. Increase the YTD gross and YTD taxable gross figures on the FICA and/or Medicare deduction records to reflect the taxable premium.
5. Obtain payment from the employee for the FICA (6.2% of the taxable premium) and/or Medicare (1.45% of the taxable premium) withholding amounts. Include this amount on the YTD Deduct Total field of the FICA/Medicare Deduction record(s). The board of education must match these same amounts calculated in this step (process as a USAS transaction).
6. Enter the taxable premium of life insurance on the federal tax deduction record in DEDSCN on the "Life Insurance Cost" line.
7. Enter the taxable premium of life insuance on the YTD, QTD and FYTD amount fields for Non-cash earnings on JOBSCN (3 of 3). This will insure that the QRTRPT non-cash earnings will balance.