Maximizing Benefits and Minimizing Tax Liabilities:
A Guide to Imputed Income

IRC section 79 provides a valuable tax exclusion for the first $50,000 of group-term life insurance coverage offered by employers. This means that if the total insurance does not exceed this amount, employees won't incur any tax liability. However, be aware that any coverage exceeding $50,000 must be reported as income, calculated using the IRS Premium Table, and will also be subject to Social Security and Medicare taxes.

Employer-Provided Coverage

When coverage surpasses $50,000 and is deemed carried by the employer, it creates a taxable fringe benefit. A policy is classified as employer-carried if:

1. The employer contributes to the cost of the insurance, or
2. There's a situation where premium payments are arranged by the employer, effectively allowing costs to be subsidized among employees (known as the "straddle" rule).

As a result of the employer's involvement, employees receive a tangible benefit, which is subject to taxation—even if they pay the full premium amount.

Example 1: For Employer X, if the employer covers the full cost of insurance and charges different rates per the IRS Premium Table, each employee will see tax implications on benefits exceeding $50,000.

Example 2: Conversely, if all employees are charged uniformly by a third-party insurer, and the employer contributes nothing, the benefits remain non-taxable since there's no cost redistribution.

Multiple Insurers

In scenarios where multiple policies come from the same insurer, a combined test is generally utilized to determine employer involvement. However, exceptions exist; if costs and coverage can be clearly defined, those policies may be independently evaluated. For different insurers, each policy requires separate testing.

Spouse and Dependent Coverage

Employer-funded group-term life insurance for spouses or dependents is exempt from taxes if the coverage is $2,000 or less, providing a significant benefit. It's essential to note that coverage above this threshold may incur tax, with the same Premium Table applied to determine taxable amounts.

> *Example: Consider an employee receiving $40,000 in coverage from her employer, alongside $100,000 of optional insurance at her expense. Here, $10,000 is excludable while the taxable portion stands at $90,000, provided it's linked to employer involvement.*

Understanding these nuances maximizes your benefits while minimizing potential tax liabilities, ensuring compliance with IRS regulations and empowering employers to offer valuable, tax-efficient benefits to their workforce