

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.

$$\$250,000.00 - \$50,000 = \$200,000.00$$

Using this same figure, it must be determined how many thousands of dollars are involved.

$$\$200,000 / \$1,000.00 = 200$$

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.

$$.09 \times 12 = \$1.08$$

The non-cash earnings amount is calculated by taking the number of thousands and multiplying it by the factor calculated in the previous step.

$$\$1.08 \times 200 = \$216.00$$

2. Using the Payroll Payments/CURRENT or Payroll Payments/FUTURE program, the amount should be entered using a pay type of **Life Insurance Premium**. 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 Initializing of the payroll.

No Federal, Ohio, or OSDI tax amounts will be calculated, but are added to the wages even though no tax is withheld. 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 checking the "Tax Non Cash Earn" flag on the city tax record in the CORE/PAYROLL ITEMS CONFIGURATION 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 the Payroll Report or Pay Amount Summary Report. 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 Payroll Report and Pay Amount Summary Report will provide a total figure of all noncash earnings in the total section. This total will help in balancing purposes. During the Initialization 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.

If the NC1 pay 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 Quarter Report balances. Follow these procedures prior to generating W2 forms.

1. Enter the Life Insurance Amount in CORE/ADJUSTMENT Journal using the type of Life Insurance, using the Payroll Item 001 Federal Tax.
2. The W2 Report will automatically adjust the Federal, State, OSDI, City (if applicable) and Medicare, total and taxable gross amounts.
3. No Manual adjustments are needed for the Gross and Taxable Gross amounts.
4. If the Medicare withholding was paid by the employee, employer or employee and employer, Adjustments must be made to the Amount Withheld and Board Amount of Payroll item.
5. If Medicare is fully board paid (Pickup) then the total Adjustment should be made to the Board Amount of Payroll Item.

****NOTE**** The city is only adjusted when the Payroll Item Configuration setup for the city payroll item is checked to Tax Non Cash Earnings.