



# Santa Barbara County Education Office

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Susan C. Salcido, Superintendent of Schools

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October 28, 2020

SBAS-9391

TO: K-12 School Districts  
Independent Charter Schools  
Community Colleges  
Santa Barbara County SELPA  
County Education Office - Internal Services

<b>Due Date</b> <b>Fri. Dec. 18</b>
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ATTENTION: Payroll and Human Resource Departments

FROM: Myron Porter, Payroll System Supervisor

SUBJECT: **W-2 Reporting for Group Term Life Insurance**

In order to satisfy federal and state tax reporting requirements, there are additional compensation items that require special processing for inclusion on employee W-2 documents. This memo provides general information about taxable group term life insurance and instruction for inputting data into Escape.

Employers and employees with specific tax questions should seek advice from their tax counsel, CA Employment Development Department (EDD), or the Internal Revenue Service (IRS). This memo is informational and not intended as tax advice.

Districts determine and input taxable employee compensation amounts into the Escape system using a specific ADDON:

- EE LIFE

The ADDON for an employee may be:

- Set up as a monthly adjustment in *HR/Payroll – Employment – Employee Management – select an employee and go to the Addon Tab*
- A one-time adjustment in *HR/Payroll – Payroll – Adjust Payroll*
- An additional pay batch in *HR/Payroll – Employment – Additional Pay*

The deadline for inputting this type of additional taxable employee compensation into Escape is Wednesday, December 18. The amount will appear on the W-2 in Box 12 with a Code C.

**Group Term Life Insurance in Excess of \$50,000 – Internal Revenue Code (IRC) §79, §6052:**

If all or part of a premium is paid by a district on behalf of an employee or is paid by the employee with premium conversion dollars, the cost is taxable.

To determine the cost of employer-provided group term life insurance of more than \$50,000, IRS regulations provide a table showing the cost per thousand dollars of coverage per month of group term life insurance in the table below. Do not report the amount of the premiums. The income or value of coverage is not the district's actual cost of the policy. The employer may treat the costs as paid at any time or period, but they must be treated as paid at least once per year.

*IRS Uniform Premium Table – IRC Section 79  
Fair Market Value Cost per thousand dollars of coverage  
of group term life insurance over \$50,000 paid by the employer*

<i>5-year age bracket Age of employee on 12/31/2020</i>	<i>Cost per \$1,000 of coverage per month</i>
<i>Under 25</i>	<i>.05</i>
<i>25 to 29</i>	<i>.06</i>
<i>30 to 34</i>	<i>.08</i>
<i>35 to 39</i>	<i>.09</i>
<i>40 to 44</i>	<i>.10</i>
<i>45 to 49</i>	<i>.15</i>
<i>50 to 54</i>	<i>.23</i>
<i>55 to 59</i>	<i>.43</i>
<i>60 to 64</i>	<i>.66</i>
<i>65 to 69</i>	<i>1.27</i>
<i>70 and above</i>	<i>2.06</i>

For example:

District XYZ pays ten monthly premiums on an \$80,000 group term life insurance policy for John Doe, age 55. John Doe pays \$5 tenthly deductions (\$50 annually) toward the cost of the policy. Any employee-paid portion reduces the amount to be reported.

**Step 1:** Determine excess coverage: \$80,000 Total Coverage  
(50,000) Exclusion  
\$30,000 Excess Coverage

**Step 2:** Determine the yearly value of excess coverage from the table above. The value from the table per \$1,000 coverage for John Doe, age 55, is \$.43 per month. The value of

\$30,000 excess coverage for 12 months is calculated as follows:  $(30 \times \$0.43 \times 12 = \$154.80)$ . Total fair market value for the 12 months is \$154.80. If John Doe pays \$50 towards the cost of the coverage, the value of additional Federal and State income added to his taxable gross is \$104.80 ( $\$154.80 - \$50.00$ ).

This amount is also includable in W-2 Social Security (OASDI) or Medicare wages, if applicable, and the OASDI or Medicare tax must be withheld. For employees whose prime assignment is subject to OASDI and/or Medicare, report the value as Social Security wages and/or Medicare wages and process and report payroll deductions at 6.2 percent and 1.45 percent respectively.

*Using the above wage calculation: Addition to Social Security wages = \$104.80. Tax to be deducted is \$6.50 ( $\$104.80 \times 6.2\%$ ). Addition to Medicare wages = \$104.80. Tax to be deducted is \$1.52 ( $\$104.80 \times 1.45\%$ ).*

Employer-paid group term life insurance for dependents need not be reported if the policy face value of coverage does not exceed \$2,000. Otherwise, calculate and report the "cost" of the policy in the same way as for the employee, except the \$50,000 and \$2,000 exclusions do not apply. Use the "Under Age 25" rate for minor dependents.

Consult district tax counsel for the special cases of group term life insurance for terminated employees who are retired or disabled, or where the district or charitable organization is the beneficiary, or when the insurance is provided as part of an IRC Section 125 Cafeteria Plan.

### **Group Whole (Permanent) Life Insurance**

District-paid premiums must generally be reported as an addition to reportable Federal and State wages if the proceeds of the policy are payable to the employee's designated beneficiaries. If the life insurance is provided as part of a plan, intended to benefit employees or their dependents, the premium payments are not wages for Social Security or Medicare. If the employer is the sole beneficiary, or the employee pays premiums with after-tax dollars, the value is not included in income. Consult tax counsel, or the insurance carrier to determine if the insurance is provided as part of a qualified plan, non-taxable plan.

For example:

District XYZ benefit plan pays a \$200 annual premium under a plan for a group whole life insurance policy for John Doe. John Doe's wife is the beneficiary. Request an adjustment to report \$200 as additions to Federal and State wages subject to income tax. "Individual" term life insurance is treated basically the same as group whole life insurance. We advise employers to seek tax counsel if there is a question whether their particular life insurance is group term life insurance or "individual term" life insurance and regarding possible differences in taxation in special instances.

Find additional information at the following resources:

IRS Publication 15-B *Employer's Tax Guide to Fringe Benefits*  
IRS Publication 525 *Taxable and Non Taxable Income*  
IRS Publication *General Instructions for Form W-2*

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EDD Publication DE44 *California Employer Guide*

EDD Publication DE231EB *Taxability of Employee Benefits*

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For questions about this subject, please contact me at 805-964-4711 ext. 5280.