

## Group Term Life - Commonly Asked (Tax) Questions

### Must the cost of employer-provided group-term life insurance be included in an employee's gross income?

Pursuant to Code Section 79, an employee may exclude **up to \$50,000** of employer-provided group-term life insurance from his or her income. This tax exclusion applies only to insurance on the life of the employee. It does not apply to insurance on the life of the employee's beneficiary.

In addition, the employer may generally deduct the premiums it pays for the coverage as an ordinary and necessary business expense, so long as the employer is neither directly nor indirectly the beneficiary under the policy.

### May the employer provide group-term life insurance for its employees in excess of \$50,000?

Yes. However, the "cost" of the coverage in excess of \$50,000 must be included in the employee's gross income. "Cost" as used here does not refer to the premium paid by the employer but to the cost determined under the Uniform Premium Table contained in IRS regulations. The "cost" of the coverage added to an employee's gross income is commonly referred to as "imputed income."

### Can employees purchase group-term life insurance benefits with pre-tax dollars?

Yes, but only under a Code Section 125 cafeteria plan. Employees may purchase, with pre-tax dollars, up to \$50,000 of group-term life insurance without having any "cost" of that coverage included in gross income. An employee may not use this exception if the employer has already provided up to \$50,000 of employer-paid group-term life insurance benefits. In this case, amounts paid for the coverage through the cafeteria plan are excluded from employees' income (regardless of the amount of coverage), but the cost of coverage in excess of \$50,000 will be included in employees' income based on the IRS' Uniform Premium Table.

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