

Group Term Life Insurance Tax Issues

Internal Revenue Code (IRC) Section 79 generally allows an employer to provide each of its employees up to \$50,000 in tax-free group term life insurance coverage. The cost of the first \$50,000 in employer-provided group term life insurance coverage is excludable from the employee's income. Without the protections of Section 79, employees would pay federal income tax on the cost of this life insurance coverage.

Under IRC Section 79, employees are taxed on the "cost" of group term life insurance coverage in excess of \$50,000, to the extent that the "cost" exceeds the individual employee's own contributions. "Cost" for this purpose generally is NOT based on the rate the employer pays for the coverage, but on the so-called "Table I" rates set by the IRS. These Table I rates appear in IRS regulations, and the IRS cannot revise them without issuing new regulations.

This *Willis Employee Benefits Alert* is a reminder of the mandatory year-end payroll reporting requirements with regard to the taxation of group term life insurance. If your group plan provides life insurance coverage over \$50,000 for any employee or if your group plan discriminates in favor of officers or owners, you will need to pay special attention to IRC Section 79 rules and comply by December 31, 2006.

The Table I rates¹ are shown below:

Table I Rates for Group Term Life Insurance

Monthly Cost/\$1,000 of Coverage

<u>Five-year Age Bracket *</u>	<u>Rates</u>
Under 25	\$0.05
25-29	.06
30-34	.08
35-39	.09
40-44	.10
45-49	.15
50-54	.23
55-59	.43
60-64	.66
65-69	1.27
70 and over	2.06

* Employee's age on the last day of the calendar year.

Note: If an employee is covered by more than one group term life plan, the coverage's are aggregated so that the employee may not exclude the cost of more than \$50,000 in coverage for the year.

¹ Table I Rates are *not* adjusted annually — only when deemed necessary by the IRS.

U.S. Benefit Office Locations

Anchorage, AK (907) 562-2266	Atlanta, GA (404) 224-5000	Austin, TX (800) 861-9851	Baltimore, MD (410) 527-1200
Birmingham, AL (205) 871-3871	Boise, ID (208) 340-0645	Boston, MA (617) 437-6900	Cary, NC (919) 459-3000
Charlotte, NC (704) 376-9161	Chicago, IL (312) 621-4700	Cincinnati, OH (513) 762-7661	Cleveland, OH (216) 861-9100
Columbus, OH (614) 766-8900	Dallas, TX (972) 385-9800	Denver, CO (303) 218-4020	Detroit, MI (248) 735-7580
Eugene, OR (541) 687-2222	Farmington, CT (860) 284-6137	Florham Park, NJ (973) 410-1022	Ft. Worth, TX (817) 335-2115
Grand Rapids, MI (616) 954-7829	Greenville, SC (864) 232-9999	Houston, TX (713) 625-1023	Jacksonville, FL (904) 355-4600
Knoxville, TN (865) 588-8101	Las Vegas, NV (702) 562-4335	Long Island, NY (516) 941-0260	Los Angeles, CA (213) 607-6300
Louisville, KY (502) 499-1891	Memphis, TN (901) 248-3100	Miami, FL (305) 373-8460	Milwaukee, WI (414) 271-9800
Minneapolis, MN (763) 302-7100	Mobile, AL (251) 433-0441	Mountain View, CA (650) 944-7000	Naples, FL (239) 514-2542
Nashville, TN (615) 872-3700	New Orleans, LA (504) 581-6151	New York, NY (212) 344-8888	Omaha, NE (402) 778-4851
Orlando, FL (407) 805-3005	Philadelphia, PA (610) 964-8700	Phoenix, AZ (602) 787-6000	Pittsburgh, PA (412) 586-1400
Portland, OR (503) 224-4155	Roswell, NM (505) 317-3397	St. Louis, MO (314) 721-8400	San Diego, CA (858) 678-2000
San Francisco, CA (415) 981-0600	San Juan, PR (787) 725-5880	Seattle, WA (206) 386-7400	Spokane, WA (206) 386-7400
Tampa, FL (813) 281-2095	Washington, DC (301) 530-5050	Wilmington, DE (302) 477-9640	

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