



Reporting Taxable Amount of Life Insurance Premiums

Revised May 2019

Board Paid Life Insurance Over \$50,000

According to the Internal Revenue Service, for employer provided group-term life insurance, the cost of 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 in Table 2-2 of Publication 15-B. These rates set the cost of each \$1000 of group-term life insurance for each month, according to the employee's age as of the end of the calendar year. The following steps will ensure that the proper amounts will be taxed and placed on the W2 forms.

Table 2-2. Cost Per \$1,000 of Protection For 1 Month

Age	Cost
Under 25	\$.05
25 through 29	.06
30 through 34	.08
35 through 39	.09
40 through 44	.10
45 through 49	.15
50 through 54	.23
55 through 59	.43
60 through 64	.66
65 through 69	1.27
70 and older	2.06

You figure the total cost to include in the employee's wages by multiplying the monthly cost by the number of full months' coverage at that cost.

Calculating the Taxable Premium of Board Paid Life Insurance Over \$50,000

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.

1. Calculate the amount of excess coverage over \$50,000.00. This is used to determine the taxable coverage. In this example, the amount of taxable coverage would be \$200,000.00.
2. Divide this figure by \$1,000 to determine how many thousands of dollars are involved. This figure is used to determine the annual cost. In this example, the result is 200.
3. 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. In this example, multiply .09 by 12 months.
4. The non-cash earnings amount is calculated by taking the number of thousands and multiplying it by the factor calculated in the previous step. In this example, the resulting non-cash earnings amount is \$216.00.

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

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

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

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



Entering Information in USPS

After calculating the taxable premium as explained above, follow the steps below to enter the information in USPS. If before the final pay of the calendar year, enter the amount through UPDCAL. This is the preferred option. If after the final pay of the calendar year or after the employee's final pay, see the instructions on the next page to update records manually. If you received a notice from an annuity company indicating the taxable amount of life insurance purchased through an annuity, see the instructions on the next page to update records manually.

Entering Amounts through UPDCAL

1. In USPSCN/UPDCAL_CUR or UPDCAL_FUT, the calculated amount should be entered using a pay type of NC1. This pay type represents one kind of non-cash earnings for the employee.

ID: GREE00050		Job: 01	Name: RACHEL GREEN		Daily Rate: 136.538			Position: Very Hard Worker	
Work days:		Tx		Retire Reg/		Effectiv			
Type	Units	Rate	Amount	Description	Op Ret	Hours	Spec	Date	
REG	1.00	136.538	136.54	Very Hard Worke	—	8.00		00/00/0000	
NC1	1.00	216.000	216.00	Excess Life Ins	—	0.00		00/00/0000	

This pay type is treated differently for taxation purposes. The tax amounts for Medicare and Social Security are calculated during the CALCPAY and UPDCAL_CUR programs. No Federal, Ohio, or OSDI tax amounts are calculated. All of these are treated according to federal rules.

The software provides the ability to withhold city tax on non-cash earnings. This can be activated by setting the "Tax non-cash earnings" flag to Y (yes) on the city tax record in the USPSDAT/DEDNAM program. Even if the flag is set to N (No), the amounts are added to wages. Manually change the wages if not the desired effect.

Code: 004	Type: CITY	Name: CITY OF CIRCLETOWN
Required: 1	Job Level: Y	Abbrev: CIRCLETW W2 Abbrev:
PAY TO INFORMATION		
Vendor: _____	Name: CITY OF CIRCLETOWN	
Address: 123456 CIRCLE ROAD		
CIRCLETOWN, OH 12345-		
Tax Entity code: _____	RITA: _____	
Tax Med/FICA pickup: Y	_____	
Tax Non-Cash Earn : Y	CCA : _____	
Tax Board Amounts : N	_____	

2. Complete the payroll.

The non-cash earnings amount is not included in the gross pay amount, nor in the gross totals on PAYRPT or PAYSUM. However, it is included in the adjusted gross figure because the amount is considered part of the taxable gross even if no tax is being withheld on it. Both the PAYRPT and PAYSUM provide a total figure of all non-cash earnings to help in balancing purposes.

During CHKUPD, the total payment for NC1 is added to the total and taxable gross figures on all tax records including those for which no tax was withheld. The JOBSCN to-date figures for Non-cash earnings (screen 3 of 3) are also updated.

	YTD	YTD	QTD	FYTD	CTD	CTD
	Units	Amount	Amount	Amount	Units	Amount
Regular	: 80.00	16013.50	12810.80	16013.50	80.00	16013.50
Shift premium:						
Overtime	:					
Miscellaneous:	1.00	75.00	75.00	75.00	1.00	75.00
Dock	:					
Gross	:	16088.50	12885.80	16088.50		16088.50
Non-cash earn:		216.00	216.00	216.00		



Updating Records Manually for Board Paid Life Insurance Over \$50,000 or Life Insurance Purchased by Withheld Annuities

For board paid life insurance over \$50,000, if the NC1 pay type was **not** processed prior to the last pay of the calendar year or prior to an employee's final pay off, the following manual procedure must be used in order for the pay to show correctly on the W2 and to ensure that the QRTRPT balances. Prior to generating W2 forms, complete all procedures listed below.

For life insurance purchased by withheld annuities, complete steps 1, 2, and 3 (if applicable). You should have received a notice from the annuity company indicating the taxable amount of life insurance purchased through an annuity. Use that amount when making manual changes. Also, increase the YTD gross, QTD gross, YTD taxable gross, and QTD taxable gross figures on OSDI records by the amount indicated as life insurance. Decrease the QTD and YTD Deduct Total on the annuity record by the amount indicated as life insurance.

1. Increase the YTD gross, QTD gross, YTD taxable gross, and QTD taxable gross figures on the federal tax record by the amount of the taxable premium.
2. Increase the YTD gross, QTD gross, YTD taxable gross, and QTD taxable gross figures on the state tax deduction record to reflect the taxable premium.
3. Increase the YTD gross, QTD gross, YTD taxable gross, and QTD taxable gross figures on the municipality tax deduction record IF required by the municipality. It may be necessary to contact the city tax department to determine if the premiums on life insurance over \$50,000 are considered taxable or not.
4. Increase the YTD gross, QTD gross, YTD taxable gross, and QTD taxable gross figures on the FICA and/or Medicare deduction records to reflect the taxable premium.
5. a. Obtain payment from the employee for the FICA (6.2% of the taxable premium) and/or Medicare (1.45% of the taxable premium) withholding amounts. *
b. Include this amount on the YTD Deduct Total and QTD Deduct Total fields of the FICA/Medicare Deduction record(s). **
c. The board of education must match these same amounts calculated in this step (process as a USAS transaction).
d. Include this amount on the YTD board share and QTD board share fields of the FICA/Medicare Deduction record(s).***
e. Remit total payment for Medicare.
6. Enter the taxable premium of life insurance on the federal tax deduction record in DEDSCN on the "Life Insurance Cost" line.
7. Enter the taxable premium of life insurance on the YTD, QTD and FYTD amount fields for Non-cash earn on JOBSCN (3 of 3). This will ensure that the QRTRPT non-cash earnings will balance.

*If Medicare is picked up by the board, the board will owe the employee amount instead of the employee.

**If Medicare is picked up by the board, this amount should be included on the YTD Board share field of the 692/693 record instead of the YTD Deduct Total field.

***If Medicare is picked up by the board, this amount will be on a 694/695 record.