Life Insurance Premium

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.

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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.

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.09 X 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 X 200 = $216.00
```

Processing Life Insurance Payment Through Payroll

1. Using the PAYROLL/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.

2. 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 Initialization of the pay and PAYROLL PAYMENTS - CURRENT program.

3. No Federal, State, or OSDI tax amounts will be calculated. 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" field on the city tax record in the CORE/PAYROLL ITEM CONFIGURATION screen.

4. Complete the payroll.

The non-cash earnings amount will not be included in the gross pay amount, nor in the gross totals found on Pay Report or REPORTS/PAY AMOUNT SUMMARY REPORT OPTIONS. 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 Pay Report or REPORTS/PAY AMOUNT SUMMARY REPORT OPTIONS will provide a total figure of all non-cash earnings in the total section. This extra total will help with balancing.

Life Insurance Payment was **Not** Processing Through Payroll

If the Life Insurance Premium Pay Type was **NOT USED** prior to the last pay for the employee the **Life Insurance** (NC1 in classic) payment amount must be entered manually in order for the Life Insurance amount to show correctly on the W2 form and to insure that the Quarter balances.

Go to **Core-Adjustments**- Click on **Create**: Find the **Employee**, choose the **001 Federal Payroll Item, Type**- Life Insurance, **Transaction Date** and **Amount**

When the Save button is clicked this will update the **total** and **taxable gross** fields for **any** Payroll Item that taxes Life Insurance Premiums (Federal, State, OSDI, City, (if applicable) and Medicare. This is then reflected on the W2 Report.

The employee will owe city tax for the Life Insurance Amount not paid through the system. This will be reflected when the employee files their taxes with the city.

Medicare withholding **must** be paid. If the Medicare withholding was paid by the employee and employer or it was entirely paid by the employer, Adjustments must be made to the 692-Medicare-Employee Amount Withheld and Board Amount of Payroll Item.

If Medicare is fully board paid (Pickup) then the total Adjustment should be made to the Board Pickup Amount of Payroll Item.

Adjustment Journal   + ×

☐ Create New   ✔ Save   ⊘ Cancel
☐ Close

Employee
Cox, Cory Jeff - ANON1467   ⌄

Payroll Item
Type: Medicare Tax, Code: 692   ⌄

Type   Board's Pickup Amount of Payroll Item   ▼

Transaction Date   🗓 5/1/20

Amount   2.900

Description   Missed Life Insurance Payment Withholdin

To Date Options
☑ Month To Date
☑ Quarter To Date
☑ Year To Date
☑ Fiscal Year To Date