



Imputed Income for Term Life Insurance

What is imputed income?

The IRS requires you to be taxed on the value of employer-provided group term life insurance over \$50,000. The taxable value of this life insurance coverage is called "imputed income." Even though you don't receive cash, you are taxed as if you received cash in an amount equal to the value of this coverage.

Why is pre-tax Term Life insurance subject to the imputed income rules?

Because your monthly premium for group term life insurance coverage is deducted from your pay on a pre-tax basis, the IRS considers it to be "employer provided." Therefore, the value of any pre-tax (and other employer-provided) coverage over \$50,000 is added to your taxable compensation as "imputed income."

What am I paying tax on?

The Retirement System death benefit and the NC Flex group term life insurance benefit are added together. The amount which can be provided tax-free (\$50,000) is subtracted from this amount. You pay taxes on the amount of term life coverage over \$50,000. You can estimate your imputed income, which is subject to taxation, by using the Imputed Income Calculator.

What happens if I am not yet eligible for the Retirement System death benefit because I do not have one year of service under the Retirement System?

Once you become eligible for the Retirement System death benefit, that benefit will be added to your total term life benefit when calculating the amount of your imputed income. Until then, only your NC Flex group term life benefit will be included in this calculation. (For example, if you are not yet eligible for the Retirement System death benefit and your NC Flex group term life benefit is less than \$50,000, you will not have any imputed income.)

When am I taxed?

Your pre-tax premium deduction for the term life benefit comes out of your check each payday. Also, any taxable imputed income resulting from your "employer-provided" pre-tax coverage is added back at the same time. Generally, however, many employees will experience a "tax wash." This means the savings employees may receive by purchasing their term life insurance coverage on a pre-tax basis is roughly the same amount of tax on the imputed income added to pay.

Am I being taxed twice?

No.

Imputed income is taxed once and that is each payday. At the end of the year, your Form W-2 will include your taxable income (including imputed income) as well as the amount of taxes that have been taken out throughout the year.

Why am I taxed for a death benefit that I may never use?

Since the State provides this benefit to you (rather than you having to pay for it on your own) the IRS treats it as taxable income just like your pay.

What is the long-term effect on my retirement benefit?

Participation in the term life plan will not affect your benefit under the Retirement System. In addition, it will not affect the amount you may contribute to the State's 401(k) plan or to a 403(b) or 457 retirement plan.

Plan participation may affect your future Social Security retirement benefits. This could happen if your taxable pay (after pre-tax contributions are taken out) is below the Social Security taxable earnings amount – called the contribution and benefit base. (Base = \$ 118,500 for 2016).

At March 2016, the Social Security Administration web link for contribution and benefit bases is: <https://www.ssa.gov/OACT/COLA/cbb.html>

BEACON Pay Statement Imputed Income amount location and display.

Remuneration statement							
Pay Period: 12/01/2015 through 12/31/2015				Name: _____		Personnel No: _____	
Check Date: 12/22/2015				Organization: _____			
Earnings	Deductions	Taxes	Net Pay	Deductions	Current	YTD	
Current:		=		# BYUP 80/20 PT			
YTD:		=		# BYUP 80/20 HA Credit PT			
Earnings	Hours	Current	YTD	# BYUP 80/20 PCP Cred PT			
				# BYUP 80/20 NS Credit PT			
				** Total Health Insurance			
Regular Salary				* 401k Savings Plan EE			
Vacation Leave				* 457 Savings Plan EE			
Sick Leave				# NC Flex Dental-PT			
Holiday Comp Leave				# NC Flex Vision Sup PT			
Community Service Leave				# NC Flex Life Ins PT			
Paid Holiday				# NC Flex Cancer PT			
Comp Leave				* TSERS EE			
** Total Base Pay				# NC Flex Health FSA PT			
Annual Longevity				SECU			
Lump Sum Comp Bonus		750.00		Combined Campaign			
Imputed Income		12.90		401k Roth EE AT			
** Total Other Pay		762.90		457 Roth EE AT			
				** Total Other Deductions			
Total Earnings				Total Deductions			

The web link for the NCFLEX Group Term Life Insurance vendor VOYA's calculation of imputed income amount is:

http://www.lifehelp.com/calc_imputed_income.html

March 2016 Notes:

Text was updated to show 2016 Social Security Benefit and Contribution Base Amount and the web link for the Social Security Administration Base Amount table was added.

Text FAQ content is from 2013 OSHR/NCFlex web link that is no longer active; however, information is correct and current.