

## EBIA Weekly Archives

### Can We Provide a Nontaxable Dependent Life Insurance Benefit to Our Employees?

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**QUESTION:** We would like to provide a modest life insurance benefit on the lives of our employees' spouses and dependents. Is this type of benefit always taxable to employees? If not, how much coverage can we provide on a nontaxable basis?

**ANSWER:** The Code provision that allows employers to provide up to \$50,000 of group term life insurance to employees on a nontaxable basis does not apply to insurance on the lives of employees' spouses and dependents (commonly referred to as "dependent life insurance"). As a result, employer-provided dependent life insurance benefits are generally taxable. When taxable, their cost is subject to income and FICA tax withholding and must be reported as wages on Form W-2. Their cost is not, however, subject to FUTA. Cost for this purpose is determined using the same Table I values that are used when determining the taxability of group term life insurance on employees' lives. If employees pay any portion of the cost, those payments must be made on an after-tax basis because dependent life insurance cannot be offered through a cafeteria plan. Any employee contributions to the cost must be subtracted from the Table I cost to determine the employer-provided amount.

A limited exclusion applies to employer-provided dependent life insurance that pays a benefit not greater than \$2,000. Employer-provided coverage in that amount or less is treated as a de minimis fringe benefit and is disregarded for federal income tax purposes. While IRS regulations governing de minimis fringe benefits state that dependent life insurance is not a de minimis fringe benefit, the effective date of that provision has been postponed indefinitely for persons who are considered spouses and dependents for federal tax purposes. (The postponement does not appear to apply to a domestic partner or a domestic partner's dependent who does not also qualify as the employee's tax dependent.) If employees contribute to the cost of coverage that pays a benefit greater than \$2,000, the benefit may still be de minimis if the employer-provided portion is not greater than \$2,000. For this purpose, the employer-provided portion equals the coverage amount that could be purchased at Table 1 rates with the excess, if any, of the total (Table 1) cost over the employee's contribution to that cost. If an employee's benefit is not de minimis, the entire employer-provided portion is taxable—not just the portion over \$2,000.

Because the Code does not impose any nondiscrimination requirements on dependent life insurance benefits, your company may freely choose which employees receive the benefit. Note also that Table I bases cost on the age of the insured, so your company will need to know the ages of all insured dependents in order to determine the gross income resulting from any taxable dependent life insurance benefits.

For more information, see EBIA's [Fringe Benefits](#) manual at Section XIV.I ("Dependent Life Insurance").

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