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December 5, 2005

Taxable Income on Group Life Insurance in Excess of \$50,000

The Internal Revenue Code requires that an employee be taxed on the cost of employer-provided group term life insurance in excess of \$50,000. Our files indicate there may be employees covered by your group life plan with coverage in excess of \$50,000 during 2005.

We have enclosed the following information for your use in calculating the taxable income amounts for your employees:

- A copy of the Table I rates which indicate the imputed income per \$1,000 of coverage.
- A sample calculation worksheet
- An example of the taxable income calculation

Also, please remember the premium for group term life insurance benefits in excess of \$50,000 is also subject to FICA tax. The maximum taxable wage base for purposes of applying FICA tax in 2005 is \$90,000 for the OASDI portion (6.2% of wages); 100% of an employee's wages are subject to the hospital insurance portion of 1.45%.

Your payroll service they may be able to calculate taxable income amounts and deduct them from each employee's paycheck.

If you have any questions or if we may be of further assistance, please contact us at 206-441-6300.

TABLE I RATES (2005)

Age *	Rates
Under 25	0.05
25 - 29	0.06
30 - 34	0.08
35 - 39	0.09
40 - 44	0.10
45 - 49	0.15
50 - 54	0.23
55 - 59	0.43
60 - 64	0.66
65 - 69	1.27
70 +	2.06

* Attained age on the last day of the taxable year

Name	Age on 12-31-05	Total Benefit	Taxable Benefit (Benefit in excess of \$50,000)	Table I Cost per \$1000/Mo.	# of Months	Subtotal Taxable Income	Total Annual Taxable Income
Example I:							
John Doe	40	\$70,000	\$20,000	0.10	12	\$24.00	\$24.00
Example II:							
John Doe	40	\$ 60,000	\$10,000	0.10	6	\$6.00	
John Doe	40	\$75,000 <i>(salary changed 7/1/05)</i>	\$25,000	0.10	6	\$15.00	\$21.00

Example I:

A. Assumptions

1. Age 40 on December 31, 2005
2. Covered January through December (12 months)
3. \$70,000 benefit during all months covered

B. Calculation

1.	Benefit in excess of \$50,000 (\$20,000):	20 (in \$1,000's)
2.	<u>Times</u> cost per \$1,000 of protection for 1 month	<u>X \$.10</u> (age 40)
3.	Equals cost for \$20,000 for 1 month	\$2.00
4.	<u>Times</u> number of months covered	<u>X 12</u>
5.	Equals taxable income	\$24.00

Example II:

A. Assumptions

1. Age 40 on December 31, 2005
2. Covered all year (12 months)
3. \$60,000 benefit from January through June (6 months),
\$75,000 benefit for remainder of year (6 months)

B. Calculation

1.	Benefit in excess of \$50,000 for first 6 months	10 (in \$1,000's)
2.	<u>Times</u> cost per \$1,000 of protection for 1 month	<u>X \$.10</u> (age 40)
3.	Equals cost for \$10,000 for 1 month	\$1.00
4.	<u>Times</u> number of months covered at \$60,000	<u>X 6</u>
5.	Equals taxable income for first 6 months	\$6.00
6.	Benefit in excess of \$75,000 for last 6 months	25 (in \$1,000's)
7.	<u>Times</u> cost per \$1,000 of protection for 1 month	<u>X \$.10</u> (age 40)
8.	Equals cost for \$25,000 for 1 month	\$2.50
9.	<u>Times</u> number of months covered at \$75,000	<u>X 6</u>
10.	Equals taxable income for last 6 months	\$15.00
11.	Taxable Income for the year (sum of 5 and 10)	\$21.00