

TAX TREATMENT OF EMPLOYEE GROUP LIFE AND HEALTH PLANS

SUMMARY

Federal tax deductions available to employers and employees on group life and health plans vary with the type of insurance. Employers in states with income tax should contact their tax advisor for details on the laws in their particular state.

TAX LAW AND SICK LEAVE BENEFITS

There are many reasons why employers provide group life and health plans for their employees. Among them are competition for qualified employees, concern for employees' welfare, requirement by union agreements, to increase employee morale, retention of valuable employees, etc.

Another reason is to obtain favorable income tax treatment. The following brief descriptions touch on some of the most common circumstances where employers and employees can or cannot deduct their group life and health plan costs:

EMPLOYER

The employer's contribution toward an employee's coverage is deductible by the employer as a business expense. However, contributions for coverage of a partner or sole proprietor are not deductible as an expense of the business.

EMPLOYEE

1. Group Term Life (When the employer is not the beneficiary) - The employee's contribution toward his or her group life coverage is not deductible by the employee. The employer's contribution will not be considered taxable income to an employee provided the amount of the employee's life insurance does not exceed \$50,000.

2. Disability income - The employee's contribution toward his or her disability income coverage is not deductible by the employee. The employer's contribution is not taxable income to the employee.
3. Major Medical - At the current time, employee contributions are deductible by the employee to the extent not reimbursed by the employer is an employer cafeteria plan. The employer's contribution is not taxable income to the employee.
4. Dependent Life insurance - The employee's contribution toward dependent life insurance is not tax deductible by the employee. The employer's contribution is not taxable income to the employee, as long as the insurance amount does not exceed \$2,000.

The above are general guidelines and the taxability of any benefits received will be governed by the facts of each case. Many states have income tax laws. Since these laws vary, employees should contact their tax advisors for details.

This BMA was reviewed by Lang & Associates, P.A.