

PAYROLL: LIFE INSURANCE OVER 50K

Group Term Life Insurance benefits paid for by an employer and given to employees in excess of 50 thousand dollars are considered by the IRS to be taxable fringe benefits, but only subject to tax withholding for FICA and Medicare. This excess over 50k taxable amount is not withheld for state or federal taxes, but must be reported in boxes 1, 3, 5, 12 and 16 on an employee's W-2 form. The taxable portion of this benefit is figured by determining the cost of the benefit to the employer, based on various factors. This amount can be found by referencing tables provided by the IRS.

This help sheet will explain how Life Insurance Over 50k can be handled in the TRIO Payroll program. What is listed here is considered to be the preferred method for handling this benefit, however there may be alternate ways to accomplish the same result in the program. For more information on the actual rules and regulations regarding Excess Life Insurance over 50k, please reference IRS Publication 15-B on Fringe Benefits or the informational mailing provided by the Maine Municipal Association.

To set up Life Over 50k as a taxable benefit:

1. Create a deduction for use with the Employer's Match screen for employees

- From the Payroll main menu, select *6. Table and File Setups > 1. Deduction Setup*
- Select *File > New* and enter the deduction number to use. The system defaults to the next available number.
- Enter an appropriate name for the deduction in the *Description* column (e.g. *Life over 50k*)
- Change the tax status of the deduction to *D – Fed/St/Loc Exempt*. This will make the benefit only affect an employee's taxable wage for FICA and Medicare.

	Description	Tax Status	Amount	Amount	% of	Freq	Limit	Limit Type	
1	Health	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
2	Dental	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
3	Life	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
4	United Way	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
5	Dental Insurance	H	0.00	Dollars		W -	999,999.99	Life	G 1-331
6	Child Support	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
7	Retirement	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
8	Dependant Care	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
9	School Health	T	0.00	Dollars		W -	999,999.99	Life	G 1-331
10	Life Over 50k	D	0.00	Dollars		W -	999,999.99	Life	G 1-331

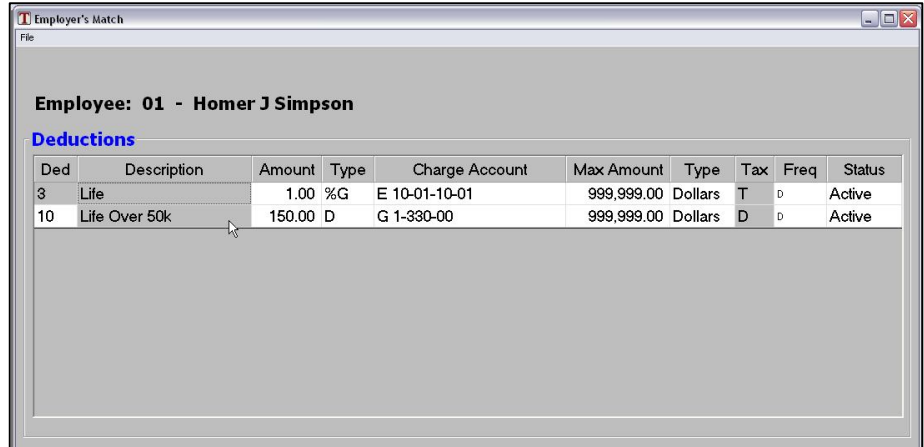
- Enter a withholding account to use for this deduction in the *G/L Account* field. The net entries from this process will be zero, but to keep the process clean for auditing purposes it is best to set up a specific account in the General Ledger for this process.
- Press **F12** to save the new deduction

2. Add the new deduction as an Employer's Match to any employees that need to be affected

- This process is typically a once a year process and is done near the end of the year (i.e. December). The Employer's Match setup should be done before the payroll in which the excess FICA and Medicare taxes are intended to be withheld.
- To add the Employer's Match deduction, from the main menu in Payroll, select *1. Employee File Updates > 4. Employer's Match*
- Select the employee to update – if an employee has already been selected this session, press **F6** to select a different employee
- On the *Employer's Match* screen, select *File > New Deduction* to add a new line for the match

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- In the *Ded* column select the new deduction created in step 1 from the drop-down menu
- In the *Amount* field enter the dollar value that this employee should have added to his or her wages. This is the amount figured from the tables provided by the IRS. By “paying” this employee that amount through this benefit, their taxable gross for FICA and Medicare will increase, causing the necessary tax to be withheld.



Ded	Description	Amount	Type	Charge Account	Max Amount	Type	Tax	Freq	Status
3	Life	1.00	%G	E 10-01-10-01	999,999.00	Dollars	T	D	Active
10	Life Over 50k	150.00	D	G 1-330-00	999,999.00	Dollars	D	D	Active

- In the *Charge Account* field, enter the same General Ledger account number that was entered in step 1 as the withholding account for the deduction. This will cause that account to be credited and debited for the same amount, meaning the net affect on the Budgetary System will be zero.
- The other settings on this screen (*Type, Max Amount, Frequency, etc.*) can be left at their default settings
- Press **F12** to save the Employer's Match deduction for this employee
- Repeat the above steps for any employees who are affected by this benefit

3. Process the next payroll as normal

- No special steps need to be taken for the next payroll. The affected employees will have their FICA and Medicare taxable gross amounts increased by the amount set up in step 2. This will cause the system to withhold extra tax from these employees. It will not affect their Federal or State taxable gross amounts.

4. Once the payroll is completed, make the Employer's Match inactive for future payrolls

- Since this is a once a year process, the deductions should be deactivated after this payroll has been run
- To change the frequency of the Employer's Match deduction, from the main menu in Payroll, select *1. Employee File Updates > 4. Employer's Match*
- Select the employee to update – if an employee has already been selected this session, press **F6** to select a different employee
- On the *Employer's Match* screen, change the frequency of the Life Over 50k deduction to *N – Hold*
- Press **F12** to save the frequency status change
- Repeat the above steps for any employees who are affected by this benefit
- In future years, if employees have this same benefit, the existing deduction can be used to run this process again

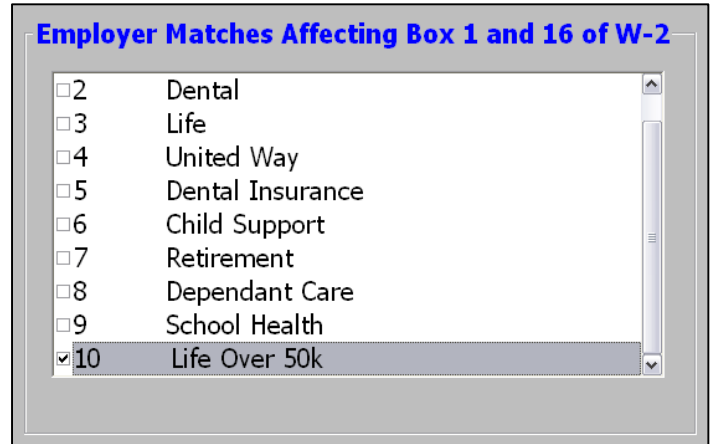
NOTE: Employees who are subject to the Life Insurance Over 50k benefit and are terminated or retire before the end of the year are still eligible to have this benefit taxed, as long as they meet the criteria provided by the IRS. Because of this, they must have this tax withheld on their last paycheck – this is not something that can be added on at the end of the year for them. If they are no longer being paid there is no way to withhold extra taxes from them. The above processes can be run for an individual employee at any point during the year.

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To Report Life Insurance over 50k correctly on W-2s:

1. Configure the Employer's Match deduction to be reported in Boxes 1 and 16

- From the main menu in Payroll, select *M. File Maintenance > 1. Customize*
- Under the *Employer Matches Affecting Boxes 1 and 16 of W-2* option, find the Life Insurance over 50k deduction that was created in the previous process and check it off
- Press **F12** to save the changes
- The Group Term Life Insurance fringe benefit, per the IRS, is not subject to withholding for federal and state taxes, but it does need to be reported in boxes 1 and 16 on an employee's W-2. TRIO fills in boxes 1 and 16 with an employee's federal and state taxable gross wages for the calendar year being reported on. Since this benefit is not having state or federal tax withheld from it, the Employer's Match from the previous process will not affect an employee's federal or state taxable gross. Selecting this option will make the system pick up on this benefit and it will include the appropriate amount from this Employer's Match in boxes 1 and 16 on the W-2. Boxes 3 and 5 will be automatically affected by the process listed on the previous pages.
- This option will also affect totals on the Quarterly Federal 941 Report for the quarter that the Employer's Match was included in (i.e. the fourth quarter). This ensures that the Taxable Wage totals on the W-3 will match to the totals on all four of the 941s combined. The State 941 does not list State Taxable Gross, so is unaffected by the option.



2. Set up the Life Insurance over 50k amount to show in Box 12

- From the main menu in Payroll, select *3. Calendar End of Year > 5. Edit W-2 Contact Information*
- Select the *Box 12 Deductions* tab and click on *File > Add Box 12 Code* to add a blank line
- In the *Deduction* column on the blank line select the Life Insurance over 50k deduction
- Per the IRS, the Life Insurance over 50k benefit has a Box 12 code of C, so type the letter 'C' into the *Code* field on the blank line
- Press **F12** to save the Box 12 Deductions changes
- Any employees who had this benefit set up as an Employer's Match will have the amount entered for the match listed in Box 12 on their W-2