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## Insurance

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Life insurance is essential for many families, but employees often find it difficult to set aside funds for this purpose, especially in peak spending years when they are raising their kids. Fortunately, an employer may provide some relief by providing group-term life insurance coverage.

Generally, the first \$50,000 of employer-provided coverage is exempt from tax – including both income tax and employment taxes – and deductible by the employer. But certain obstacles in the tax law must be overcome to qualify for the tax breaks.

*[This is [part of a series on fringe benefits](#) by our resident tax expert, Ken Berry, J.D., on the “sweet 16” fringe benefits on the books for 2016.]*

For starters, the following requirements must be met:

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Even if the employer doesn't pay any of the policy's cost, it is considered to carry it if it arranges for payment of the cost by employees and charges at least one employee less than, and at least one other employee more than, the cost of his or her insurance.

**10-employee rule:** Generally, life insurance isn't group-term life insurance unless it is provided to at least 10 full-time employees at some time during the year. For purposes of this rule, count employees who choose not to receive the insurance unless, to receive it, they must contribute to the cost of benefits other than the group-term life insurance.

There are two significant exceptions to the 10-employee rule.

**Exception 1.** All of the following conditions are met:

- If evidence that the employee is insurable is required, it is limited to a medical questionnaire (completed by the employee) that doesn't require a physical.
- The employer provides the insurance to all full-time employees (or, all full-time employees who provide evidence the insurer accepts).

Coverage is based on either a uniform percentage of pay or the insurer's coverage brackets that meet certain requirements.

**Exception 2.** All of the following conditions are met:

- The employer provides the insurance under a common plan covering employees and the employees of at least one other non-related employer .
- The insurance is restricted to, but mandatory for, all employees who belong to, or are represented by, an organization (e.g., a union) that carries on substantial

activities besides obtaining insurance.

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Finally, the tax law features numerous other rules designed to prevent employers from discriminating in favor of the top brass. Notably, if the group-term life insurance plan favors “key employees” as to participation or benefits, the entire cost is included in the key employees’ wages. For 2016, a key employee is defined as someone who is (1) an officer with annual pay of more than \$170,000 or (2) a 5 percent owner of the business or a 1 percent owner of the business with annual pay of more than \$150,000.

However, this harsh tax result may be avoided if any of these conditions are met:

- The plan benefits at least 70 percent of the employees.
- At least 85 percent of the participating employees aren’t key employees.
- The plan benefits employees who qualify under rules that don’t favor key employees.

Employer-provided group-term life insurance is a valuable fringe benefit but it presents pitfalls for those who don’t adhere to the rules. Make sure that your business clients toe the line.

Benefits

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