

# Taxation of Death Benefits

The Internal Revenue Code [Section 7702(j)] dictates that certain self-funded church death benefits be treated as life insurance contracts. The Benefit Plan's salary continuation and lump-sum death benefits qualify for that treatment.

Under the code, an employee is not taxed on the cost to an employer of group-term life insurance premiums if the total coverage provided does not exceed \$50,000. If the coverage exceeds \$50,000, the cost (as valued by the Internal Revenue Service) in excess of \$50,000 is deemed "imputed income" and must be included in the employee's gross income reported on the W-2.

If an employing organization provides additional group-term life coverage, that coverage also must be included in the total coverage amount. For example, if an employer pays for supplemental death coverage, that benefit would have to be included.

## Taxation of Death Benefit Dues Calculator

Use the Board of Pensions taxation of death benefit dues calculator to calculate the imputed income to be reported yearly on a member's W-2, if any. You need to know the employee's salary and age and the median salary for his or her employment classification.

When an insured employee dies, paid death benefits are excluded from the recipient's gross income for federal and most state income tax purposes.

To access the Death Benefit Dues Calculator:

Go to [www.pensions.org](http://www.pensions.org)

Click the Red Menu Box at the Top Right Corner

Click Tax Resources (2<sup>nd</sup> column, second item from the bottom)

Scroll down to Calculators

Click Taxation of Death Benefit Dues Calculator

Complete the Form

The calculator will give you amount, if any, that needs to be included on the member's W-2 form.

The amount would be entered in Box 12 with a code of C.

**Code C—Taxable cost of group-term life insurance over \$50,000.** Show the taxable cost of group-term life insurance coverage over \$50,000 provided to your employee (including a former employee). See *Group-term life insurance*. Also include this amount in boxes 1, 3 (up to the social security wage base), and 5. Include the amount in box 14 if you are a railroad employer.