

TO: PCA Church Treasurers, Business Managers and Administrators
FROM: Gary D. Campbell, CFA
SUBJECT: Potential Tax Liability for Those Covered by PCA Life Insurance Plans
DATE: November 2018

Federal law requires that the imputed (assigned) cost of employer-provided group term life insurance in excess of \$50,000, or dependent coverage if it exceeds \$2,000, be reported as *taxable income*.

This means that some participants in the PCA insurance plans may have a taxable fringe benefit for group term life coverage in the Basic Life, Standard Life, Enhanced Life, Enhanced Spouse Life and Enhanced Dependent Life Insurance Plans. Although the tax liability will probably be minimal, it does need to be added to the employee's W2 form as taxable compensation for 2018.

The first steps to determine whether your pastor(s) and/or church employee(s) have a taxable fringe benefit are:

- 1) Who paid the premiums for coverage in the PCA group term life insurance plans?
If the *participant* personally paid with *taxable income*, there is no additional taxable compensation to be added to the W2.
On the other hand, if the *church/employer* paid the premiums as an employee benefit *with non-taxable dollars* see information in the next step to determine if there is additional taxable compensation to report on the employee's W2.
- 2) Does the total benefit of employer-paid group term life insurance coverage for any individual exceed \$50,000?
If the answer is "No," the participant does not have additional taxable compensation to be added on their W2.
On the other hand, any coverage *over \$50,000* paid by the church/employer must be reported on the employee's W2 as taxable compensation.

If you have now determined that your pastor(s) and/or church employee(s) have *employer-provided group term life insurance that exceeds \$50,000*, you will next need to calculate the amount of taxable compensation that must be added to their W2 form.

- FICA Taxes: For lay employees, FICA taxes need to be paid on the additional taxable fringe benefit amount. FICA taxes may be processed on each paycheck OR on the final paycheck each year.
- SECA Taxes: Ordained Ministers covered by Social Security will need to pay SECA taxes on any additional taxable fringe benefit unless minister has opted out of Social Security.

Federal law also requires that the cost of employer-provided group term life coverage for spouses and dependent children be reported as taxable income *if the amount exceeds \$2,000*. The additional amounts are to be calculated based on age of spouse and/or dependent child(ren) according to the rates in the IRS Monthly Rate Table. Only those pastors or lay employees who have employer-paid Enhanced Life spouse and/or children's coverage are affected.

The worksheet for Employer-Provided plan information found on the reverse of this memo applies for churches or organizations who provide employee life insurance benefits. In other situations this worksheet will not be used, rather, the actual premium costs should be added to the pastor's or lay employee's taxable income and federal income and social security taxes (if applicable) should be withheld. To determine how to handle your church or organization, please consult your local tax expert. As an additional resource, our Call Package Guidelines booklet provides some options for setting up or re-organizing benefit packages to enhance tax savings.

The example worksheet and four-step process on the back of this memo is intended to be a helpful resource as you continue to work through this process. At the bottom of the page you will also find the table with the IRS Monthly Tax Rates by age.

If you have questions concerning the actual tax liability of your pastor(s) and/or employee(s), please see the www.irs.gov website and read IRS Publication 15-B (2018) "Employer's Tax Guide to Fringe Benefits" beginning on page 13. You may also want to call your local tax professional for assistance with questions that are specific to your pastor and/or church staff.

Example Worksheet for Calculating Tax Liability

STEP 1 Instructions: Calculate **Total Employee Taxable Life Insurance Coverage Paid by the Employer**

Use this section to circle the employee age and enter the current level of coverage for each PCA plan in which the employee is enrolled. *Locate your current monthly PCA Group invoice which lists these coverage levels for each employee.*

Age	Basic Life	Standard Life	Enhanced Life for Employee	Dependent Enhanced Life (See Step 3 below.)	TOTAL of PCA Life Insurance	SUBTRACT \$50,000 as Non-Taxable	TOTAL of TAXABLE Life Insurance
Under 49	\$25,000	\$250,000		N/A			
50 – 54	\$25,000	\$150,000		N/A			
55 – 59	\$25,000	\$100,000		N/A			
60 – 64	\$25,000	\$60,000		N/A			
65 – 69	\$16,250	\$38,000		N/A			
70 – 74	\$12,500	\$30,000		N/A			
75 – 79	\$8,750	\$21,000		N/A			
80+	\$5,000	\$15,000		N/A			

Step 1 Example: Pastor, age 39, is enrolled for employer-provided PCA benefits effective October 1.

He is enrolled for Basic, Standard, and \$250K Enhanced life insurance.

Calculate total coverage using the table above. Use the example in Step 2 to calculate the total hundreds of employer-provided life insurance.

STEP 2 Instructions: Calculate **Taxable Income Amount for Employer-provided Employee Coverage**

Step 2 Example: Using your numbers (as in the example from Step 1) and calculating the **Total Taxable** in hundreds from the second table above, calculate tax amount filling in the table below with the appropriate TAX RATE from the IRS table below:

Age as of 12/31/2018	Basic Life (000's)	Standard Life (000's)	Employee Enhanced Life (000's)	Dependent Life (See Step 3 for example)	Total	Subtract \$50K (as non-taxable)	Total Taxable
39	25	250	250	N/A	525	-50	475
	Total Taxable X	IRS Monthly Rate per \$1,000 * X	Number of Months Covered =	TOTAL TAX Amount			
Pastor	475	0.09	3	\$ 128.25			

STEP 3 Instructions: Calculate **Taxable Income Amount for Employer-provided Dependent Coverage** if greater than \$2,000.

Note: These are calculated separately using the ages of the spouse and the child as of December 31 of the tax year.

Step 3 Example: The church also provides \$50K Enhanced for his Spouse, age 32, and \$10k Enhanced for his child, age 6.

Dependent Age as of 12/31/2018	Basic Life	Standard Life	Dependent Enhanced Life X	IRS Monthly Rate per \$1,000* X	Number of Months Covered =	Subtract \$50K	Total Tax Amount
32	N/A	N/A	50	0.08	3	N/A	\$ 12.00
6	N/A	N/A	10	0.05	3	N/A	\$ 1.50

STEP 4 Instructions: To Calculate the Total Taxable Wages Amount from Life Insurance to add to W2:

- Combine the totals from the Employee and the Dependent TAX totals (see Steps 2 and 3 above).
- Add the total of those combined amounts to the Employee's Taxable Income for 2018.

Step 4 Example: Calculate Tax Amount for Employee, Spouse, and Child tax amounts totaled for inclusion on the employee's W2 form:

	Employee Tax Amount calculated in Step 2 Example:	\$128.25
	Spouse Amount in Step 3 Example:	12.00
	Child Amount from Step 3 Example:	1.50
Total Amount (from your own worksheet calculations) to be added to the W2 Taxable Wages Boxes 1, 3, 5 and 12, Letter C		\$141.75

*** IRS Monthly Rate Table**

IRS Rates for Computing Additional Taxable Income. Uniform Premium Table with monthly rate per \$1,000 of Insurance.
Select rate for the age as of the last day of the tax year.

Ages	Monthly Rate per \$1,000	Ages	Monthly Rate per \$1,000
Under 25	\$0.05	50 – 54	\$0.23
25 – 29	0.06	55 – 59	0.43
30 – 34	0.08	60 – 64	0.66
35 – 39	0.09	65 – 69	1.27
40 – 44	0.10	70 and over	2.06
45 – 49	0.15		