



Unicorn HRO

Imputed Income and Group Term Life Insurance

Imputed Income - Overview

“Imputed income” is a term used to describe pay that is recorded on the system for purposes of government reporting and/or taxation. It is not cash that is paid to the employee. It is also called a “memo earning”. It may also represent money that was paid to the employee via a payment other than a payroll check, for example, an Accounts Payable check. In that case, the payment must be recorded so that it is included on the employee’s W-2 form. If you used a payroll check to pay these amounts to the employee, no additional processing is required. Examples of imputed income are:

- Dependent care assistance that exceeds the tax-free amount
- Adoption assistance that exceeds the excluded amount
- Group term taxable life insurance coverage over \$50,000
- Unsubstantiated employee business expenses
- Personal use of employer-provided car
- Educational assistance above the excluded amount
- Non-deductible moving expense reimbursements

Imputed Income - Setup

To record a payment for an employee, it is important to have a separate pay code if the amount must be reported on the W-2 form, such as taxable group term life insurance. Otherwise, the system has no way to separate pay amounts. A pay code and deduction must be defined on the system. Add these to common objects:

- ☐ Payroll Deductions
- ☐ Pay Codes

Complete the set-up using the following functions:

- ☐ Add the deduction to the Deduction Definition and Employer Deduction Contribution functions and assign a General Ledger number to it.
- ☐ Create a pay code in Pay Code Definition. To prevent this amount from being paid in cash to the employee, enter the corresponding deduction in the “Payroll Deduction” field. Assign a General Ledger number to the pay code. The other fields in Pay Code Definition are as follows:
 - Pensionable: This field is currently for information only and will be utilized in a future release. Click on this checkbox if this pay code represents pensionable earnings.
 - Supplemental Pay: Generally, imputed income is to be taxed at supplemental rates and therefore this checkbox should be selected. This includes taxable fringe benefits and expense allowances paid under a non-accountable plan. Check the latest IRS rules to determine how this payment should be taxed. (Note: for supplemental pay codes to be taxed at supplemental tax rates, the “Treat Supplemental Wages as Regular for W/H” flag in Payroll System Defaults must be “off”.)
 - Use Secondary Supplemental Tax Rate: leave this checkbox empty.
 - Severance pay for State Income Tax Purposes: leave this checkbox empty.
 - Puerto Rico Christmas Bonus: leave this checkbox empty.

On the Pay Process Control window, fields will generally be entered as follows:

- Factor for Rate: Leave this field 0.000, since an hourly rate is not involved.
 - Accrue Entitlement Hours and Labor Hours: Leave these fields “off”, since hours are not being paid.
 - Include in Base Wage: This field can be left “off”. It is informational only.
 - Taxable Life: This checkbox should be selected only if it represents the pay code to record group term life insurance benefits over \$50,000. Only one pay code should be selected per legal entity.
 - Include in SUI Weeks Worked: This field can be left empty, since it does not represent time worked.
 - Eligible for Retro Pay: This field can be left empty, since retroactive pay adjustments would not apply.
 - No Pay Pay Type: This field must be left empty, since a no pay pay type only records hours and not dollars.
 - Average Rate Overtime, Include in Avg. Rate Hours, and Include Pay in Avg. Rate: These fields can be left empty, since the pay does not represent time worked.
 - Use Shift to Calculate Pay: This field can be left empty, since the pay does not represent shift hours worked.
 - Third Party Sick Pay: Select this field if it represents sick pay given to your employees by an insurance company or other third party payor, and the payor notified you of the amount of sick pay involved (thereby transmitting liability).
- ❑ If the pay is exempt from any taxes, or exempt from withholding but should be included in income, use the Pay Taxation Exemptions function to specify this. Only exempt the pay code; do not also exempt the deduction in Deduction Taxation Exemptions.
- ❑ In the common object Pay Codes, identify the items that must be printed on W-2 forms. For group term life insurance, select “C” in the Box 12 field so that it prints on Box 12 of the employees’ W-2 forms and in the appropriate place on W-2 diskettes. Only the pay code must be set to print on W-2 forms, not the offset deduction.

Imputed Income - Processing

Once the pay code and deduction have been set up, pay the earning to affected employees. This can be done by entering the amount in Lump Sums or any of the Time and Attendance functions. Make sure you use the appropriate pay code. Imputed income should be paid with the employee’s regular paycheck, rather than a separate payment. This is done in order to have enough pay from which to withhold any taxes related to the imputed income. There is a special Check Print Option in lump sums that can be used to ensure that the amount is only paid with a “standard” payment. By using Check Print Option “R” (Pay Only w/Std), the system will only process the lump sum with time and attendance data, scheduled hours for a time card exempt employee, or another lump sum that has a Check Print Option of “Combine w/Reg” (a blank value in the common object). When using Check Print Option “R”, you must also enter an End Date of 12/31/9999. When the system sees these two data elements, it will not pay the lump sum unless there is a standard payment. When the lump sum is processed and the corresponding payment is closed, the system will change the End Date on the lump sum to the Pay Period End Date when it was processed. Therefore, it will not be paid again. If the employee does not receive a standard payment, the End Date will remain 12/31/9999, and the system will try to pay it on the next Pay Period End Date until the employee has a standard payment.

Group Term Life Insurance - Overview

If you provide a qualified group term life insurance benefit to your employees, the value of the amount over \$50,000 is taxable to those employees. The IRS has issued a table which determines the value of the excess coverage, based on the employee's age at the end of the year. This value must be included in Box 1 wages. Withholding for federal income tax is not required, however.

Group Term Life Insurance - Setup

- In Benefit Plans, define the life insurance benefit and select the "Taxable Life Insurance" field. This field is only to be used for group term taxable life insurance. If employees pay any portion of the cost of this benefit, enter it in the Costing section. Any employee contributions that are not pre-tax from FIT are subtracted from the taxable benefit amount.
- Enroll employees in this benefit using Benefit Enrollment. If dependents are covered under this plan, enroll them and enter the amount of coverage. Any changes in coverage throughout the year must be entered here or through the Benefit Update (if the benefit is a multiple of employee salary).
- Check the IRS rates in Taxable Life Rates. These rates are shipped with the iCON system. They are entered by employee age, for \$1000 coverage for one month. Current rates are as follows:

<u>Upper Age Limit</u>	<u>Monthly Rate Per \$1,000</u>
024	.05
029	.06
034	.08
039	.09
044	.10
049	.15
054	.23
059	.43
064	.66
069	1.27
999	2.06

- In Deduction Definition and Employer Deduction Contributions, set up a deduction which will be the offset to the life insurance pay code.
- In Pay Code Definitions, set up a pay code which will be used in the lump sum earning. Enter the Payroll Deduction to offset the earning.
- In Pay Taxation Exemptions, the pay type should exempt from FIT, but added to taxable wages. It is exempt from FUTA. Check the state and local rules for taxation.

Group Term Life Insurance - Processing

Use the Taxable Life Process function to calculate the value of the benefit. A lump sum earning will be created for the employee, for the Pay Period End Date that you specify, for the amount of the benefit. The Check Print Option will be set to "Pay Only w/Std", and the End Date will be set to 12/31/9999. By so doing, the taxable life lump sum earning will not be processed until the employee has a standard payment. The Taxable Life Process function can be run on a pay period, monthly, or annual basis. It will calculate the employee coverage amount over \$50,000. It then adds in the entire amount of a dependent's coverage if that coverage exceeds \$2,000. It subtracts any employee post-tax contributions. (Deductions that are exempt from FIT are not subtracted.) Then, the IRS table is used to get the value of the coverage based on the age the employee will be at the end of the year of the Check Date. The Misc. Payroll record for the year of the Check Date is used to get the Pay Frequency. The employee's birth date in Demographics is accessed.

The Terminate Employee function contains an option to process the employee's taxable life earning as part of his or her last pay check. This is recommended since the employee must pay taxes on this earning. If the taxes are not taken from the employee's pay, the employer will be responsible for both the employee and employer share of FICA and FICM.

Group Term Life Insurance Example

- Employee is enrolled in group term life for \$250,000, is age 51, and her cost by age is \$.10/M/1000. IRS rate = \$.23.
- Dependent is enrolled in group term life for \$10,000, is age 55, and his cost by age is \$.15/M/1000. IRS rate = \$.43.

Here is the calculation for a monthly earning:

Employee:

$$\begin{array}{r} 250,000 \\ - 50,000 \text{ exempt} \\ \hline 200,000 \\ \\ 200 \text{ (200,000 / 1,000)} \\ \times .23 \text{ IRS rate} \\ \hline 46.00 \\ - 25.00 \text{ cost: } 250 \times .10 \\ \hline 21.00 \end{array}$$

\$21.00 is earning for employee portion

Dependent:

10,000 entire amount is taxable since it is > \$2,000

$$\begin{array}{r} 10 \\ \times .43 \\ \hline 4.30 \\ -1.50 \quad \text{cost: } 10 \times .15 \\ \hline 2.80 \end{array}$$

\$ 2.80 is earning for dependent portion

Total:

$$\begin{array}{r} 21.00 \\ + 2.80 \\ \hline \end{array}$$

\$ 23.80 lump sum is created