CrawfordAdvisors, LLC

Imputed Income Issues for Employers

Four Areas Employers Must Review

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Executive Summary:

This Whitepaper produced by Crawford Advisors, LLC provides information about four "imputed income" areas Company Executives may want to review with your Benefits Consultant, Payroll Provider, Tax or Accounting Department, or outside CPA to determine if you need to adjust your tax withholding procedures.

The Issue

Generally, employees are not taxed on the value of employer-provided benefits for the employee and his or her dependents. There are important exceptions to this rule, however.

One exception is for benefits provided to certain categories of individuals who do not meet either federal or state law definitions of "dependent" – such as those identified in the following. Two other exceptions noted apply for group term life insurance and long term disability (LTD) insurance benefits.

Imputed Income *Defined*:

Imputed income is the addition of the value of cash/non-cash compensation to an employees' taxable wages in order to properly withhold income and employment taxes from the wages. Imputed income is taxable to the assignee (unless specifically exempt). Because it is delivered for the performance of services (related to employment) it must be included in the assignee's Form W-2 to accurately reflect the assignee's taxable wage-related income.

1

Group Health Plan Coverage for Adult Children of Employees

The issue: You may have to impute income for state tax purposes even though not for federal tax purposes.

The new Health Care Reform law requires that group health plans (both insured and self-funded) that cover employees' dependents must offer coverage to age 26. Subsequent guidance provides that employer paid coverage for adult children is not subject to Federal income tax. Not all states conform to Federal tax rules, however.

In some states (e.g., California), the fair market value of coverage for adult children remains subject to state income tax to the extent the coverage is paid by the employer or by the employee on a pre-tax basis, unless the employee certifies that the adult child meets the Federal Tax Code definition of "dependent."

Employers should seek state specific advice from their Payroll provider.

(Note that in California, AB 36 has been introduced, to conform the California Revenue and Tax Code to the federal Tax Code with regard to coverage for adult children dependents. If it is enacted, AB 36 would eliminate this imputed income issue for California employees. It appears this would be retroactive to March 30, 2010, since the bill says it "shall apply in the same manner and to the same periods as the federal amendments referred to." A vote is expected in the Assembly in mid-February and in the Senate probably by the end of March. No guarantees, but it seems likely the bill will be enacted.)

2

Group Health Plan Coverage for Domestic Partners and Their Children

The issue: You may have to impute income for federal tax purposes, even though not for California state tax purposes, for individuals who are "registered domestic partners" or same-sex spouses under California law but who are not "Tax Code dependents" under federal law.

Additionally, if an employee claims an individual as his or her "Domestic Partner" but the employee and individual are not "registered" Domestic Partners, employer contributions toward group health coverage
for this person will be subject to both California and federal tax withholding, unless the employee certifies that this nonregistered domestic partner meets the Tax Code definition of "qualifying relative."

(Non- registered "domestic partners" are often opposite-sex partners.)

3

Group Term Life Insurance for Employers

The issue: You must impute income for life insurance coverage above $50,000; coverage of any amount for "key employees" provided through a discriminatory plan; employer-paid coverage in excess of $2,000 for spouses or dependents; and employee-paid supplemental life insurance that is provided under a plan that "straddles" the IRS Table I rates.

Coverage in excess of $50,000.

All participants will have imputed income on premiums for group term life insurance in excess of $50,000, if such premiums are paid by the employer or are paid on a pre-tax basis by employees (i.e., paid through a cafeteria plan). The imputed income amount is based on the IRS Table I rates. There are a few exceptions, such as coverage provided after an employee becomes disabled; any portion of coverage for which the employer is directly or indirectly the beneficiary; and coverage for which a charity is the sole beneficiary.

Discriminatory plan.

If your group term life insurance plan discriminates in favor of any "key employee"— either as to eligibility or as to the kind or benefit amount—then all "key employees" covered under the plan must include in taxable income the cost the first $50,000 of coverage. The amount taxable to the key employees is the higher of actual cost or Table I cost. There are no tax consequences to non-key employees in the plan.

Coverage in excess of $2,000 for spouses or dependents.

If the employer pays the premium for life insurance with a face amount of more than $2,000 for an employee's spouse or dependents, the entire premium amount is imputed income for the employee. If the life insurance is less than $2,000, however, the coverage is excludable as a "minimis" fringe benefit under IRC Section 132, and there is no imputed income for the employee.

The plan "straddles" the Table I rates.

If you offer employee-paid supplemental group term life insurance, employees who pay less than the IRS Table I rates will have imputed income equal to the difference between the Table I rates and the amounts they pay.

Employees who pay more than the Table rates will not have imputed income.

Sometimes employer's rates violate this rule by only a few cents (or less) per $1000 in one or two age bands, and this is easily remedied by re-structuring the rates so there is no "straddling" (i.e., all employees' rates are either higher than, the same as, or lower than the Table I rates for their age brackets). A situation that needs immediate attention is where an employer charges older (and usually higher-paid) employees less than the Table I rates, while charging younger (usually lower-paid) employees more than the Table I rates, resulting in the younger employees "subsidizing" the rates paid by older employees.

Table 1. Cost per $1,000 of Group Term Life Insurance

< 25	$0.05
25 – 29	$0.06
30 – 34	$0.08
35 – 39	$0.09
40 – 44	$0.10
45 – 49	$0.15
50 – 54	$0.23
55 – 59	$0.43
60 – 64	$0.66
65 – 69	$1.27
70 +	$2.06

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication, unless expressly stated otherwise, was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any tax-related matter(s) addressed herein.

4

Long Term Disability "Gross-Up" Plans

The issue: Employers who pay the premiums for employees' long-term disability (LTD) insurance may want to impute income equal to the premium amount, so that if an employee becomes disabled, benefits received will not be taxable.

If LTD premiums are paid with after-tax employee dollars, any benefits received will not be subject to taxation; however, if the premiums are paid by the employer or with employee pre-tax dollars, any benefits received will be taxable. Some employers offer arrangements under which employees can elect annually whether they or the employer will pay their LTD premiums for the upcoming year. Other employers pay the LTD premium and then impute income only for certain categories of employees (often management employees).

You must discuss with your broker and/or carrier how premiums will be paid before you implement such arrangements.

Next Steps:

If you think any of the imputed income items discussed above might apply to your company, contact your Benefits Consultant, Payroll Advisor, Tax or Accounting Department, or outside CPA for guidance on whether you need to change your payroll or tax withholding procedures for 2013.

Would You Like Me To Personally Reduce Your Costs, Increase Your Efficiency and Improve Your Ability to Recruit...**For Free?**

Because you have shown interest, I'd like to personally invite you to participate in a unique employee benefits experience.

There's no charge for this and it only takes about 60-90 minutes for us to do together.

A partner and I will evaluate your plans at a high level and present an executable strategy built for immediate improvement. We'll tell you exactly what to do, when to do it, how you compare to competitors, and how to ensure your plan out-performs local, regional and national benchmarks.

At the end of this initial planning phase one of these two things will happen:

1) **You love the plan** and decide to implement it on your own. If this is the case, I'll wish you the best of luck and ask that you keep in touch with me to let me know how you're doing.
2) **You love the plan** and ask to become a client so that I along with my team of consultants, underwriters, attorneys, graphic artists and customer service representatives can personally help you execute, maximize, and benefit from it ASAP.

I fully understand that **your time is the most valuable asset** you have, and I respect that. As with every organization that has engaged me in this process, you will see **tremendous value** in this process.

Regardless of whether you become a client or not. The **worst** that can happen is that you receive an **unbiased strategic plan** from a nationally recognized team of employee benefit experts.

And on the other hand, we immediately begin **executing the details of our plan to drive a greater return on investment for the healthcare dollars being spent.**

Period. It's that simple. Here's how it works:

First, we get on the phone and discuss whether this opportunity is the **right fit for your organization.** If mutually agreeable, we meet in your office for a structured consultation we call Discovery.

I will ask a series of fact-gathering questions to determine your strengths, dangers and opportunities across **11 critical areas proven to impact plan cost**.

Once I have that "raw data", my team prepares a **36 month plan built for maximum impact and immediate execution**. This plan, called a Blueprint, is a tangible and executable plan with strategies built specifically for YOU to **save time and money**.

There are a number of ways I might do this for you. For example, I might show you…

- How to redesign your plan for better pricing, coverage, participation...
- How to budget and predict future costs...
- How to increase productivity and free up the time of your HR department to focus on more strategic activities...
- How to drastically improve employee perception value to give you an edge in recruiting and retaining top talent…
- How to remove concern and eliminate compliance risk – both governmentally and contractually…
- How to effectively structure and tie a wellness plan into your contribution strategy with greater than 75% participation…

And like I said, there's **no charge** for this.

So why would we offer this?

First of all, it works. I have helped numerous companies **reduce their healthcare costs and achieve a greater return** from their health and welfare investment.

Secondly, it is how I attract new clients. A certain percentage of the companies that accept this offer will hire my firm to implement the details of THEIR Blueprint.

It is our way of providing tremendous value to an organization we believe may be a **long-term partner**…while experiencing a virtual test drive of our intellectual capital and award-winning resources to achieve the **greatest impact in the shortest amount of time.**

In many cases, our compensation structure provides an **actual cost savings to receive more value!**

We are able to do this because we are a **true "in-house" broker.** We do not outsource our technology, compliance, administration, communications, etc.

And if at the conclusion of our meeting, you determine not to hire us…there are no hard feelings or an impending sales pitch coming your way…**EVER.**

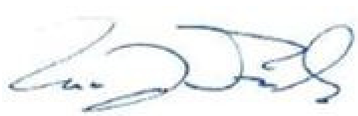
This process works, and if we work through this together, **I guarantee you'll be thrilled with the results.**

Time is a factor. Because of the hands-on nature and amount of time I invest in **building unique strategies**, my time is limited to the number of organizations across the U.S. I can help.

Therefore, it is physically impossible for me to work with more than a handful of organizations. If you feel this is the right fit and worth exploring, click this link to leave me your information and let's talk…

http://www.crawford-advisors.com/advantage

To Your Success,



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