



1700 North Brown Road, Suite 106 • Lawrenceville, GA 30043
Toll free: 800-789-8765 Fax: (678) 825-1261

Gary D. Campbell, CFA, President

MEMORANDUM

TO: PCA Church Treasurers, Business Managers and Administrators
FROM: Gary D. Campbell, CFA
RE: Potential Tax Liability for Those Covered by PCA Life Insurance Plans
DATE: November 2009

Federal law requires that the cost of employer-provided group term life insurance in excess of \$50,000 be reported as taxable income.

This means that participants in the PCA insurance plans may have a tax liability for group term life coverage in the Basic Life, Standard Life, and/or the Optional 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 2009.

To determine whether your pastor(s) and/or church employee(s) have this tax liability, you need to answer the following:

- 1) Who paid the premiums for coverage in the PCA Plans? If the participant personally paid with taxable income, there is no additional taxable compensation. On the other hand, if the church or employer paid the premiums as an employee benefit with non-taxable dollars, you will need to answer the next question to determine whether there is additional taxable compensation.
- 2) Does the total group term life insurance coverage for any individual exceed \$50,000? If the answer is "No," the participant does not have additional taxable compensation. On the other hand, any coverage over \$50,000 paid by the church or employer must be reported as taxable compensation. Table I (see next page) provides the amount of insurance coverage above \$50,000 for participants in the Standard Life and Basic Life Plans, based on their ages and the plans in which they were enrolled during 2009. Table II shows amounts available under the Optional Life Plan, but does not relate amounts to age, since age and amounts of coverage do not correlate in this plan.

If you have determined that your pastor(s) and/or church employee(s) have employer-provided group term life insurance that exceeds \$50,000, you now need to calculate the amount of taxable compensation that must be added to the W2 form. For lay employees, FICA taxes need to be paid on the additional taxable amounts, either from each paycheck or from the final one each year. Ministers covered by Social Security need to pay SECA taxes on any additional taxable income.

To figure the actual amount the IRS considers taxable income, complete the following:

Amt. of insurance over \$50,000 (in thousands)	X	Monthly rate per \$1,000 of coverage (see Table III)	X	Number of months covered	=	Total additional taxable compensation to report for 2009
_____		_____		_____		\$ _____

There are two examples on the back of this sheet, which should help as you do the calculations for your pastor and/or employees.

Special note for Optional Life -- Was the Optional Life coverage provided for all full-time ministers and/or employees who were insurable? If not, the actual premiums paid by the church or employer should be included in the taxable compensation of the minister and/or employee.

If you have any questions concerning the actual tax liability of your pastor(s) and/or employee(s), please contact your local tax professional.

Continued on next page

The chart in Table I always applies for churches or organizations with only one employee or where all full-time employees are covered for Standard Life and Basic Life. In other situations the actual premium costs should, in most cases, be added to the pastor's or lay employee's taxable income and federal income and, if applicable, social security taxes should be withheld. To determine how to handle your church or organization, please consult a local tax expert.

TABLE I EMPLOYER PROVIDED LIFE INSURANCE COVERAGES <u>IN EXCESS OF \$50,000</u>		
Ages	Standard Life Only	Standard Life + Basic
Under 35	\$200,000	\$210,000
35-39	\$200,000	\$210,000
40-44	\$200,000	\$210,000
45-49	\$200,000	\$210,000
50-54	\$100,000	\$110,000
55-59	\$50,000	\$60,000
60-64	\$10,000	\$20,000
65-69	\$0	\$0
70 and over	\$0	\$0

TABLE II OPTIONAL LIFE INSURANCE	
Employee Amounts:	\$20,000 - \$250,000
Spouse Amounts:	\$10,000 - \$50,000
Children Amounts:	\$1,000 - \$10,000
<p>If your pastor or lay employees have Optional Life Insurance provided on a pre-tax basis, the amount of coverage must be added to the Standard Life and/or Basic Life, if applicable, in calculating additional taxable compensation. If coverage(s) are paid by the participant through payroll deduction, they are not to be included.</p>	

Note: For most PCA employers, Basic Life = \$10,000 for employees through age 64; \$7,000 for ages 65-69; \$3,000 for those over age 70.

TABLE III Rates for Computing Additional Taxable Income.	
The IRS has approved the following table which dictates the taxable cost of life insurance per \$1,000.	
Ages	Rate per \$1,000
Under 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 and over	\$2.06

EXAMPLE 1

A pastor of a church, age 39, has employer-paid Standard Life Insurance (\$250,000) and Optional Life Insurance (\$250,000). He was pastor at the same church from October through December of 2009.

Amt of Ins. Over \$50,000 (in 000)	Monthly rate per \$1,000 of coverage (see Table III)	Number of Months Covered	Additional Taxable Compensation
<u>450</u> x	<u>\$0.09</u> x	<u>3</u> =	<u>\$121.20</u>

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 Table III. Only those pastors or lay employees who have employer-paid Optional Life spouse and/or children's coverage are affected.

EXAMPLE 2

The pastor in Example 1 has Dependent Life Insurance. He has a wife age 32 covered (\$50,000) and a child age 6 covered (\$10,000).

Amt of Ins. (in 000)	Monthly rate per \$1,000 of coverage (see Table III)	Number of Months Covered	Additional Taxable Compensation
Spouse <u>50</u> x	<u>\$0.08</u> x	<u>3</u> =	<u>\$12.00</u>
Child <u>10</u> x	<u>\$0.05</u> x	<u>3</u> =	<u>\$ 1.50</u>