

**Table 2-2. Cost Per \$1,000 of Protection for 1 Month**

Age	Cost
Under 25	\$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and older	2.06

You figure the total cost to include in the employee's wages by multiplying the monthly cost by the number of months' coverage at that cost.

**Example.** Tom's employer provides Tom with group-term life insurance coverage of \$200,000. Tom is 45 years old, isn't a key employee, and pays \$100 per year toward the cost of the insurance. Tom's employer must include \$170 in Tom's wages. The \$200,000 of insurance coverage is reduced by \$50,000. The yearly cost of \$150,000 of coverage is \$270 (\$0.15 x 150 x 12), and is reduced by the \$100 Tom pays for the insurance. The employer includes \$170 in boxes 1, 3, and 5 of Tom's Form W-2. The employer also enters \$170 in box 12 with code C.

**Coverage for dependents.** Group-term life insurance coverage paid by the employer for the spouse or dependents of an employee may be excludable from income as a de minimis fringe benefit if the face amount isn't more than \$2,000. If the face amount is greater than \$2,000, the dependent coverage may be excludable from income as a de minimis fringe benefit if the excess (if any) of the cost of insurance over the amount the employee paid for it on an after-tax basis is so small that accounting for it is unreasonable or administratively impracticable.

**Former employees.** When group-term life insurance over \$50,000 is provided to an employee (including retirees) after their termination, the employee share of social security and Medicare taxes on that period of coverage is paid by the former employee with their tax return and isn't collected by the employer. You're not required to collect those taxes. You must, however, pay the employer share of social security and Medicare taxes. Use Table 2-2 to determine the amount of additional income that is subject to social security and Medicare taxes for coverage provided after separation from service. Report the uncollected amounts separately in box 12 of Form W-2 using codes M and N. See the General Instructions for Forms W-2 and W-3 and the instructions for your employment tax return.

**Exception for key employees.** Generally, if your group-term life insurance plan favors key employees as to participation or benefits, you must include the entire cost of the insurance in your key employees' wages. This exception generally doesn't apply to church plans. When figuring social security and Medicare taxes, you must also

include the entire cost in the employees' wages. Include the cost in boxes 1, 3, and 5 of Form W-2. However, you don't have to withhold federal income tax or pay FUTA tax on the cost of any group-term life insurance you provide to an employee.

For this purpose, the cost of the insurance is the greater of the following amounts.

- The premiums you pay for the employee's insurance. See Regulations section 1.79-4T(Q&A 6) for more information.
- The cost you figure using Table 2-2.

For this exclusion, a key employee during 2026 is an employee or former employee who is one of the following individuals. See section 416(i) of the Internal Revenue Code for more information.

1. An officer having annual pay of more than \$235,000.
2. An individual who for 2026 is either of the following.
  - a. A 5% owner of your business.
  - b. A 1% owner of your business whose annual pay is more than \$150,000.

A former employee who was a key employee upon retirement or separation from service is also a key employee.

Your plan doesn't favor key employees as to participation if at least one of the following is true.

- It benefits at least 70% of your employees.
- At least 85% of the participating employees aren't key employees.
- It benefits employees who qualify under a set of rules you set up that don't favor key employees.

Your plan meets this participation test if it is part of a [cafeteria plan](#) (discussed earlier in section 1) and it meets the participation test for those plans.

When applying this test, don't consider employees who:

- Have not completed 3 years of service;
- Are part time or seasonal;
- Are nonresident aliens who receive no U.S. source earned income from you; or
- Aren't included in the plan but are in a unit of employees covered by a collective bargaining agreement, if the benefits provided under the plan were the subject of good-faith bargaining between you and employee representatives.

Your plan doesn't favor key employees as to benefits if all benefits available to participating key employees are also available to all other participating employees. Your plan doesn't favor key employees just because the amount of insurance you provide to your employees is uniformly related to their pay.

**S corporation shareholders.** Because you can't treat a 2% shareholder of an S corporation as an employee for this exclusion, you must include the cost of all group-term life insurance coverage you provide the 2%