Domestic Partner Imputed Income:

Belk offers benefit eligibility to domestic partners and the children of domestic partners, who are not legal spouses or tax dependents. Benefits for these individuals do not receive the same tax-advantaged status as benefits provided to the employee, spouse, and dependent children. The employee must pay for these benefits with after-tax income and/or the value of the benefits is added to the gross income of the employee for purposes of federal income tax and most state income taxes. The fair market value assigned to benefits for purposes of income taxes is called "imputed income."

Amount of imputed income: Imputed income is based on the fair market value of coverage less any after-tax payments by the employee. No official guidance addresses determination of fair market value. Common practice is to apply the incremental cost method.

Incremental cost: Under this approach, the amount of imputed income is the incremental cost of adding coverage for the individual(s) for whom the employee is subject to imputed income. For example, if the monthly premiums for self-only and employee-plus-spouse coverages are $160 and $310, respectively, and the employee and one domestic partner are covered, the fair market value of the domestic partner's coverage would be $310 - $160 = $150.

In Belk's circumstance for an associate that covers only a DP, the imputed income is calculated by subtracting the associate only premium from the associate + spouse/DP premium (fair market value) and then subtracting the difference between the associate only contribution and the associate + spouse/DP contribution (associate post-tax contribution). The only caveat is that the premiums in this calculation are adjusted to exclude HSA seed, wellness incentives and internal administration expenses since these are fully Belk paid and the associate shouldn't be taxed on them.

Additional Background

A basic understanding of federal income tax laws and employee benefits is helpful to an understanding of imputed income. As a rule, all employee compensation is subject to federal (and most state) income taxes. Benefits provided by Belk are a form of compensation and are therefore subject to income tax unless an exception applies.

Health benefits fall under an exception to the rule that all compensation is taxable. The gross income of an employee does not include contributions the employer makes to health insurance coverage for the employee. In addition, reimbursements for medical expenses are excluded from the employee's income to the extent the health plan is funded by employer contributions (including employee pre-tax salary reductions) or by employee post-tax payments. Both exceptions extend to benefits provided to the employee's spouse and children.

Basic Life Insurance Imputed Income:

IRC section 79 provides an exclusion for the first $50,000 of group-term life insurance coverage provided under a policy carried directly or indirectly by an employer. There are no tax consequences if the total amount of such policies does not exceed $50,000. The imputed cost of coverage in excess of $50,000 must be included in income, using the IRS Premium Table, and are subject to social security and Medicare taxes.

Carried Directly or Indirectly by the Employer

A taxable fringe benefit arises if coverage exceeds $50,000 and the policy is considered carried directly or indirectly by the employer. A policy is considered carried directly or indirectly by the employer if:

1. The employer pays any cost of the life insurance, or
2. The employer arranges for the premium payments and the premiums paid by at least one employee subsidize those paid by at least one other employee (the "straddle" rule).
   The determination of whether the premium charges straddle the costs is based on the IRS Premium Table rates, not the actual cost. You can view the Premium Table in the group-term life insurance discussion in Publication 15-B.

Because the employer is affecting the premium cost through its subsidizing and/or redistributing role, there is a benefit to employees. This benefit is taxable even if the employees are paying the full cost they are charged. You must calculate the taxable portion of the premiums for coverage that exceeds $50,000.

Table 1 Rates
The amount of taxable income on coverage in excess of $50,000 is known as "imputed income." In order to calculate the imputed income for an employee, Section 79 Table 1 Rates for group term life insurance must be used.
Table 1 is a uniform premium table published by the IRS that is used to determine how much imputed income applies to each employee. The cost of the excess coverage is based on the Table 1 rate, not the rate the employer or employee is actually paying for the coverage to the insurance carrier. Table 1 rates are age banded step rates, and the age of the employee as of the last day of the taxable year must be used in calculations.

Section 79 Table 1 Rates for Group Term Life	
Age Bracket	Monthly Cost per $1,000 of Excess Coverage
Less than 25	$.05
25 to 29	$.06
30 to 34	$.08
35 to 39	$.09
40 to 44	$.10
45 to 49	$.15
50 to 54	$.23
55 to 59	$.43
60 to 64	$.66
65 to 69	$1.27
70 and Older	$2.06

Calculating Imputed Income

The basic formula for the imputed income calculation for each employee is as follows:
(Total group term coverage - $50,000) / 1,000) x Table 1 rate for employee's age
- employee after-tax contributions for the year x 12 months

This is the basic formula because it assumes that the amount of coverage the employee has remains static over the year, but it is not uncommon for the amount of coverage to change (due to adjustments in pay)

Sample Imputed Income Calculation

An employee is 42 years old and earns $38,000 annually. The employer offers a term life benefit of three times salary, to which the employee contributes $2.50 a month after-tax toward the cost.

The employee's life insurance benefit is $114,000. The value of the amount on which the employee must pay taxes is $64,000 ($114,000 minus $50,000). To calculate imputed income, $64,000 is divided by $1,000 (since Table 1 rates are per thousand), then multiplied by $.10 (the Table 1 rate for a 42 year old). The result is $6.40 per month, less the employee's contribution of $2.50, returns imputed income of $3.90 per month, or $46.80 per year for this employee.
($114,000 - $50,000) / $1,000) x $.10) - $2.50) x 12 = $46.80