

DISABILITY TAX WORKSHEET

	A	B	C	D
POLICY YEAR	19____	19____	19____	TOTALS
1. Total DBL Premium				
2. Total Number of Employees				
3. Average Yearly DBL Premium Per Employee	$\frac{\text{Line 1 D}}{\text{Line 2 D}} =$			
4. Average Weekly DBL Premium Per Employee	$\frac{\text{Line 3 D}}{52} =$			
5. Weekly Contribution Per Employee Toward DBL Premium	(The maximum is .5% of wages; up to \$.60 per week)			
6. Percentage Employee Contributes to DBL Premium	$\frac{\text{Line 5 D}}{\text{Line 4 D}} =$			

Reporting Requirements – Amount Attributable to Employer Contributions

Under the Internal Revenue Code (IRC), that portion of disability income benefits received by an employee which were paid for by the employee's own contributions are **excludable** from the employee's gross income (i.e., they are not subject to income tax). However, disability benefits paid for by the employer's contributions are **includable** in the employee's gross income (i.e., they are subject to income tax).

The IRC specifically addressed withholding and reporting of disability benefits paid by "third party" (e.g., an insurer or 501(c)(9) trust). If the plan is contributory, the employer's report to the employee and IRS of benefits paid must show the portion of benefits attributable to employee contributions (i.e., excluded from gross income) and the portion attributable to employer contributions (i.e., included, in gross income).

Not only are employer – paid disability benefits subject to federal income tax (FIT), they are also subject to Social Security and Medicare taxes (FICA) and federal unemployment (FUTA) taxation for the first six months of disability. The insurance carrier is responsible for calculation and withholding the employee's share of Social Security and Medicare taxes. The employer is responsible for calculating and paying the employer's portion.

Reporting to Employees – Form W – 2

The employer must furnish Form W – 2 to both the employee and the IRS. The W – 2 must show that portion of disability benefits excluded from the employee's gross income (i.e., that portion attributable to employee contributions) in Box 17. The employer must identify these funds by writing the words " Sick Pay" in Box 17. The benefits included in the employee's gross income (i.e., the portion attributable to employer contributions) are to be shown in the box labeled "wages, tips, other compensation".

The report of " third – party sick pay" benefits may either be included on the same Form W – 2 which reports wages and other earnings or to be presented on a separate Form W – 2. If separate Form W – 2 is used, it must be furnished to the employee by January 31 of the year after the calendar year in which the benefits were paid (i.e., January 31, 1992 for the benefits paid in 1991).