Imputed Income Tax – Imputed income is a term the Internal Revenue Service (IRS) applies when they feel that the value of a benefit or service should be considered as income for the purposes of calculating your federal taxes. In our case, only life insurance coverage in excess of $50,000 would be considered.

To determine if this applies to you simply add the amount of life insurance provided by the County to the amount of supplemental life insurance coverage you purchase. If the amount is greater than $50,000, the IRS will assess imputed income taxes according to a sliding scale based on your age and amount of life insurance coverage. The imputed income tax on life insurance is generally not a significant amount, but it does increase with your age or amount of coverage. Imputed income will be added to your pay for tax purposes. The additional taxes that you owe will be withheld from your paycheck. Imputed income is reported on Form W-2.