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# Guide to Taxation of Employee Disability Benefits



## Guide to Taxation of Employee Disability Benefits

Standard Insurance Company (The Standard) developed this guide to help you understand the taxation of disability benefits which your employees may receive from The Standard. In this guide, you will find:

- Information on how the Internal Revenue Service (IRS) treats the Long Term Disability (LTD), Short Term Disability (STD) and Statutory Disability Insurance (SDI) benefits issued by The Standard to your employees
- An outline of your responsibilities as an employer in regard to taxation of disability benefits your employees may receive
- An outline of The Standard's responsibilities in regard to taxation of disability benefits your employees may receive
- Information on the tax reporting service The Standard offers to insured STD and SDI policyholders
- Examples of the daily, monthly and annual reports The Standard provides to you
- Frequently asked questions about the taxation of disability benefits
- Glossary of terms
- Quick reference guide to tax reporting activities

If you have questions not answered by this guide, please contact our office at 800.525.3973. We're here to help you.



## IRS Definition of Sick Pay

The IRS defines sick pay as any amount paid under a plan for employees because of an employee's temporary absence from work due to injury, sickness or disability. The sick pay may be paid by either the employer or by a third party, such as an insurance company. Based on this definition, the IRS classifies the LTD, STD and SDI benefits paid to your employees as sick pay.

## Taxation of Sick Pay Benefits

Internal Revenue Code (IRC) Section 105 indicates that LTD, STD and SDI benefits, as sick pay, are to be included in the gross income of employees if the employer pays part or all of the premium for the coverage. In these situations, the disability benefits received by the employee are subject to federal taxation. Accordingly:

- If the employer pays the entire insurance premium, then the benefits received are 100 percent taxable to the employee
- If the employer pays a portion of the premium and the employee pays the balance with post-tax dollars, then the benefits are taxable in the same proportion as the percentage of the premium paid by the employer
- If the employer pays a portion of the premium and the employee pays the balance with pre-tax dollars through a Section 125 Cafeteria Plan, then the benefits received are 100 percent taxable to the employee
- If the employer pays nothing and the employee pays the entire premium with post-tax dollars, then the benefits received are not taxable
- If the employer pays nothing and the employee pays the entire premium with pre-tax dollars, then the benefits received are 100 percent taxable to the employee

For additional detailed information about the taxation of sick pay or disability benefits, refer to the chart below and to IRS Publication 15-A, *Employer's Supplemental Tax Guide*.

## Taxation of Disability Benefits

Who Pays the Insurance Premium?	Is the Benefit Taxable?	How Much of the Benefit is Taxable?
Employer pays 100%	Yes	100%
Employer pays portion and employee pays balance with post-tax dollars	Yes	Percentage of premium paid by employer
Employer pays portion and employee pays balance with pre-tax dollars	Yes	100%
Employee pays 100% with post-tax dollars	No	None
Employee pays 100% with pre-tax dollars	Yes	100%

## Employee Pays Portion of the Insurance Premium with Post-tax Dollars

When the employee pays a portion of the insurance premium with post-tax dollars, then any disability benefits received are taxable in the same proportion as the percentage of the premium paid by the employer. According to IRS regulations, the percentage of premium paid by the employer is to be calculated using a three-year average.

For group policies in force three or more years, the three-year average refers to the three policy years before the calendar year in which the disability benefits are paid. For group policies in force less than three but more than one year, the percentage of the premium paid by the employer is based on the actual premium paid for the policy years in effect. For group policies in force less than one year, then a reasonable estimate of the percentage of the premium paid by the employer for the first policy year is used.

To calculate the taxable benefit amount, multiply the total disability benefits paid to the employee by the three-year average of the percentage of premium paid by the employer.

For example, an employee receives an LTD benefit of \$2,000 a month under a group policy paid for by both employer and employee contributions. For the three policy years before the employee became disabled, the employer paid an average of 70 percent of the total premium and employees paid the remaining 30 percent with post-tax dollars. As the employer paid 70 percent of the total premium, 70 percent of any monthly LTD benefit received, or \$1,400 ( $\$2,000 \times 70$  percent) in this example, is subject to taxation. The other 30 percent, or \$600 in this example, of each monthly LTD benefit is not taxable as employees paid for this portion of the total premium with post-tax dollars.

If you change the percentage of the premium you pay, then you must also use the three-year average to determine the percentage of the disability benefit subject to taxation.

## Owner Status and Taxation of Disability Benefits

Businesses that purchase accident and health policies, including group disability insurance, usually may consider the premiums for this coverage as a tax-deductible expense. The type of business entity and the employment status of the insured owner usually determine the tax consequences of any disability benefits received by that owner. Below are a few guidelines that apply to common business entities. Consult with a tax advisor for specific details about your particular situation.

### Corporations

Owners who actively participate in a “C” corporation are considered employees. Thus, a corporation may treat premiums paid for disability coverage on shareholder employees and non-shareholder employees as a tax-deductible expense. When the corporation pays the entire premium, the disability benefits are taxable to the employees, even the owners.

### Partnerships

In partnerships and other entities that are taxed as partnerships, including “S” corporations and limited liability companies, the owners are not considered employees. A business may treat premiums for disability insurance for employees as a tax-deductible expense. The cost of insurance for the owners is included in their gross income. Therefore, disability benefits received by a partner/owner are not taxable to the partner/owner. When the business pays the entire premium for employees, then the disability benefits are taxable to the employees.

### Sole Proprietors

With a sole proprietorship, the owner and business are one and the same. A sole proprietor may treat premiums for employee disability insurance as a tax-deductible expense. The cost of the owner’s insurance is included in the owner’s gross income. Therefore, disability benefits paid to the owner are not taxable to the owner.

## Premium Contributions as a Key Factor

Who pays the premium for disability coverage and whether it is paid with pre-tax or post-tax dollars are key factors in determining the taxability of disability benefit payments. The Standard reports taxable benefits based on the terms of the group policy.

Discrepancies between the terms of the group policy and the actual plan administration can result in complicated tax reporting problems for you, your employees and The Standard. Therefore, please make premium payments as specified in the group policy. If a discrepancy exists, you may need to request an amendment to your group policy to accurately reflect your premium payment arrangement. In this situation, please contact your insurance advisor or the Employee Benefits Sales and Service Office for your area at 800.633.8575.

## Tax Reporting Responsibilities

IRC Section 6051 (f) requires insurers to provide information to policyholders and plan sponsors to allow them to report on sick pay benefits paid to their employees. This includes the amount of disability benefits paid and taxes withheld from those benefits during the previous calendar year. It applies to benefits paid under both insured group policies and self-funded employer-paid plans administered through administrative services only (ASO) agreements. The Standard automatically provides this information to you with daily, monthly and annual reports. Refer to **Policyholder/Plan Sponsor Reports** for more information.

With the information provided on these reports, you are responsible for paying the employer share of applicable federal and state taxes, reporting and remitting taxes withheld and providing tax reporting forms to employees for disability benefits received from The Standard. To help you fulfill these responsibilities, The Standard automatically performs some of these tasks and offers a separate service agreement to perform some of the others for you. Refer to **Tax Reporting Service for STD and SDI Customers** for more information.

## Policyholder/Plan Sponsor Responsibilities

You are responsible for the following unless you have an approved tax reporting service agreement with The Standard:

- Pay the employer share of Social Security and Medicare (FICA/Tier 1) taxes payable on insured STD and SDI benefits paid to your employees by The Standard
- Report the FICA/Tier 1 taxes withheld and the taxable amount of insured STD and SDI benefits on your Form 941 Employer's Quarterly Federal Tax Return
- Prepare Form W-2 Wage and Tax Statements and provide to employees for STD or SDI benefits received from The Standard

In addition, you are always responsible for paying and reporting federal and state unemployment taxes, such as FUTA and SUTA, and any other miscellaneous payroll taxes due on LTD, STD and SDI benefits.

## Standard Insurance Company Responsibilities

As a service to you and our other customers, The Standard:

- Pays the employer share of FICA/Tier 1 taxes payable on LTD and ASO STD benefits paid to your employees
- Reports the FICA/Tier 1 taxes withheld and the taxable amount of LTD and ASO STD benefits on our Form 941
- Prepares and provides W-2 forms to employees for LTD and ASO STD benefits received from The Standard
- Provides the annual Disability Income Report to you with information you need to prepare W-2 forms for employees for the insured STD and SDI benefits received from The Standard

If you have signed a tax reporting service agreement with The Standard, The Standard will:

- Pay the employer share of FICA/Tier 1 taxes payable on insured STD and SDI benefits paid to your employees
- Report the FICA/Tier 1 taxes withheld and the taxable amount of insured STD and SDI benefits on our Form 941
- Prepare and provide W-2 forms to employees for insured STD and SDI benefits received from The Standard

Refer to **Tax Reporting Service for STD and SDI Customers** for more information about the above services we offer to policyholders with single-employer STD and SDI insurance plans.

### Tax Reporting Responsibilities

<b>Tax Reporting Activity</b>	<b>LTD Plan or ASO STD</b>	<b>Insured STD or SDI Plan without Tax Reporting Service Agreement</b>	<b>Insured STD or SDI Plan with Tax Reporting Service Agreement</b>
Remit employee share of FICA/Tier 1 tax	The Standard	The Standard	The Standard
Pay employer share of FICA/Tier 1 tax	The Standard	Policyholder	The Standard
Report disability benefits on Form 941	The Standard	Policyholder	The Standard
Prepare W-2 forms for disability benefits paid to employees	The Standard	Policyholder	The Standard
Pay and report other payroll taxes (e.g., FUTA, SUTA)	Policyholder	Policyholder	Policyholder

## Tax Reporting Service for STD and SDI Customers

Our Social Security and Medicare tax reporting service makes it easy for STD and SDI customers to fulfill their tax obligations on the benefits we pay to their disabled employees. With this service, The Standard:

- Calculates and pays the employer's portion of Social Security and Medicare taxes due on insured STD and SDI benefits paid
- Deposits both the employee's and employer's portions of these taxes with the Federal Reserve System
- Provides the employer with daily, monthly and annual reports on benefit payments and tax withholding
- Prepares W-2 forms and mails to disabled employees
- Reports yearly totals to Internal Revenue Service and Social Security Administration

The Standard's Social Security and Medicare tax service helps to make life easier for insured STD and SDI policyholders by:

- Relieving the employer of administrative paperwork, Social Security and Medicare tax payment and reporting responsibility
- Assuring timely payment and reporting of employer portion of these taxes on insured STD and SDI benefits
- Integrating and streamlining tax reporting for groups with LTD, STD and SDI coverages with The Standard
- Coordinating tax reporting with third-party payroll vendors as needed

To request this service or obtain more information about it, contact your insurance advisor or the Employee Benefits Sales and Service Office for your area at 800.633.3575. The Standard must receive, approve and implement the signed service agreement by December 15 for it to be effective for the following calendar year. Once established, the agreement remains in place for each full calendar year until you notify us in writing that you want to cancel it. In this case, the agreement will be discontinued effective January 1 of the year after we receive your request.

## Policyholder/Plan Sponsor Reports

To fulfill our responsibility to provide you with information that allows you to report and pay taxes on sick pay benefits paid to your employees, The Standard provides three separate reports:

- FICA/Tier 1 Tax Activity Report
- Group Benefits Activity Report
- Disability Income Report

These three reports, described and illustrated on the following pages, contain the information you need to fulfill your tax paying and reporting responsibilities.

When you receive these reports, we encourage you to:

- Verify that all individuals listed on the reports are your employees and that we have the correct spelling of their names and their correct Social Security numbers.
- Check the employer's contribution percentage for accuracy. The reports reflect the percentage according to our records. Your employees will be taxed on the benefits they received based on this percentage.
- Notify us of any discrepancies you may find or if you have questions about any of the report information.

If you need assistance with the tax reports or have questions about them, please contact The Standard at 800.525.3973.

## Tax Report Distribution

You may have the three tax reports sent to one central location or individual within your organization responsible for managing your disability benefit programs or to separate, multiple locations or individuals. Unless advised otherwise, we send these reports to the location you have provided as your primary address.

If you want these reports sent to one or more locations other than your main address, then we identify these other locations using “administrative unit” or “tax unit” addresses.

For example, if you want information concerning benefit payments sent to one or more locations, we establish one or more administrative unit addresses for you. Similarly, if you want tax-related information sent to one or more locations, we establish one or more tax unit addresses for you.

When a claim for disability benefits is received, we assign it to the appropriate administrative and tax units so that benefit and tax payment data are captured and reported on the appropriate reports and delivered to the correct location.

If we establish administrative unit addresses for your organization, we send the monthly Group Benefits Activity Reports to those units with the appropriate employees for each unit reflected on the reports.

If we establish tax unit addresses for you, we send the daily FICA/Tier 1 Tax Activity Reports and the annual Disability Income Report to those units with the appropriate employees for each unit reflected on the reports.

If we do not establish any administrative or tax unit addresses for you, then all of the reports go to your primary address. Please refer to the chart below for a summary of this information.

### Who Receives Tax Reports?

Administrative Unit Address?	Tax Unit Address?	FICA/Tier 1 Tax Activity Report	Group Benefits Activity Report	Disability Income Report
No	No	Primary address	Primary address	Primary address
Yes	Yes	Tax unit address	Administrative unit address	Tax unit address
Yes	No	Primary address	Administrative unit address	Primary address
No	Yes	Tax unit address	Primary address	Tax unit address

## FICA/Tier 1 Tax Activity Report

The Standard generates the FICA/Tier 1 Tax Activity Report on a daily basis whenever FICA or Tier 1<sup>1</sup> tax activity occurs on disability benefits for one of your employees. This includes the withholding of FICA or Tier 1 taxes from LTD, STD or SDI benefits and adjustment of previously withheld FICA or Tier 1 taxes.

This report is your official notification that The Standard has withheld or adjusted the employee portion of the FICA/Tier 1 tax from benefits issued under your group policy. The report includes the FICA/Tier 1 tax activity for each claim associated with the group policy on the report date.

If we have established one or more tax unit addresses for you, each location receives this report, with information on FICA and Tier 1 tax withholding or adjustments, for only those employees associated with that specific tax unit address. Otherwise, we send this report to your primary address.

When you receive this report, you may use it to help fulfill your tax remittance and reporting responsibilities associated with LTD, STD and SDI benefits received by disabled employees. This includes:

- Calculating the employer's matching share of FICA/Tier 1 taxes withheld from insured STD and SDI benefits and depositing it with the IRS as required<sup>2</sup>
- Adding the taxable insured STD and SDI benefit amount to Wages, Social Security Wages and Medicare Wages on your quarterly Form 941<sup>2</sup>
- Calculating and paying federal and state unemployment taxes and other applicable payroll taxes based on the taxable portion of LTD, STD and SDI benefits received by disabled employees

<sup>1</sup> FICA refers to Social Security or Medicare taxes. Tier 1 refers to Railroad Tier 1 or Tier 1 Medicare tax for railroad workers.

<sup>2</sup> For insured STD and SDI policyholders with an approved tax reporting service agreement with The Standard, we calculate and deposit any amounts due with the IRS and report this on our Form 941.

# FICA/Tier 1 Tax Activity Report



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MARCH 05, 2005

ABC COMPANY  
1234 YOUR STREET  
YOUR TOWN OR 12345

FICA/TIER 1 TAX ACTIVITY MARCH 05, 2005

PAGE 1

MEMBER NAME/ MEMBER SSN	CLAIM	EMPLOYER CONT.%/ POLICY#	TAXABLE BENEFIT	*SOC.SEC./ TIER 1 WITHHELD	*MEDICARE/ TIER 1 MED WITHHELD
JOHN EMPLOYEE 111-00-1111	STD 00000001	100.00% 123456	170.00	10.54	2.47
JANE EMPLOYEE 222-00-2222	STD 00000002	100.00% 123456	170.00	10.54	2.47
JACK EMPLOYEE 333-00-3333	STD 00000003	100.00% 123456	170.00	10.54 #	2.47
TOTAL FOR	91999999		510.00	31.62	7.41

Please Note: 1. A # next to the amount withheld indicates we pay the employer's matching share and do the tax repoting. 2. The Taxable Benefit is for the current period. 3. The Social Security and Medicare Tax Withheld may include adjustments for prior periods. 4. You are responsible for remitting and reporting FUTA, SUTA and other payroll taxes due. **PLEASE KEEP THIS REPORT FOR YOUR RECORDS.**

Standard Insurance Company 1100 SW Sixth Avenue Portland OR 97204-1235

## Group Benefits Activity Report

The Standard generates the Group Benefits Activity Report at the end of each month in which claims activity occurs. It provides a summary of all LTD, STD and SDI benefit payments made to disabled employees during the prior month, along with FICA/Tier 1 tax and other deductions withheld from benefits.

If we have established one or more administrative unit addresses for you, each location receives this report, with information for only those employees associated with that specific administrative unit address. Otherwise, we send this report to your primary address.

When you receive the monthly Group Benefits Activity Report, we encourage you to:

- Verify that the individuals listed on it are your employees and that their names and Social Security numbers are correct

### Group Benefits Activity Report

PROCLAIM STANDARD INSURANCE COMPANY  
 REPORT: 140-02-00 GROUP BENEFITS ACTIVITY FOR

GROUP: 12345678 ABC COMPANY

MEMBER JANE EMPLOYEE SSN: 111001111 HIRE DATE

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 10/15/2001 DEGREE:

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 12/28/2001 DEGREE:

GROSS BENEFIT	OFFSETS	NET BENEFIT	COLA	HOSPITAL BENEFITS	ADJUSTED BENEFIT
136.00	0.00	136.00	0.00	0.00	

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 12/28/2001 DEGREE:

GROSS BENEFIT	OFFSETS	NET BENEFIT	COLA	HOSPITAL BENEFITS	ADJUSTED BENEFIT
170.00	0.00	170.00	0.00	0.00	

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 12/28/2001 DEGREE:

GROSS BENEFIT	OFFSETS	NET BENEFIT	COLA	HOSPITAL BENEFITS	ADJUSTED BENEFIT
170.00	0.00	170.00	0.00	0.00	

\*\*\*\*\*  
 MEMBER JOHN EMPLOYEE SSN: 222002222 HIRE DATE

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 01/10/2002 DEGREE:

CONTRACT: 123456 ADMIN UNIT: STATUS: ACTIVE REASON FOR CLAIM:  
 CLAIM: 00001234 PRODUCT: SP DISAB DATE: 12/28/2001 DEGREE:

GROSS BENEFIT	OFFSETS	NET BENEFIT	COLA	HOSPITAL BENEFITS	ADJUSTED BENEFIT
170.00	0.00	170.00	0.00	0.00	

\*\*\*\*\*  
 TOTAL FOR: SP

SUMMARY OF ACTIVITY: APPROVED 2  
 DENIED 0  
 CLOSED 0  
 PAID 4

#### Product

Indicates type of insurance coverage.

Examples: LT - Long Term Disability  
 ST - Short Term Disability

#### Offsets

“Deductible Benefits” or “Income from Other Sources.”

Refer to list of codes on last page of your actual report.

Examples: SD - Social Security - Disability  
 WT - Worker’s Comp - Temporary

- Verify the employer contribution percentage reflects the percentage of the group insurance premium you pay as the employer
- Compare the report data, including the total FICA/Tier 1 tax liability, with that on the daily FICA/Tier 1 Tax Activity Reports to identify and resolve any discrepancies
- Calculate any outstanding employer's matching share of FICA/Tier 1 tax amounts on insured STD and SDI benefits and deposit with the IRS as required<sup>3</sup>
- Save the report and reference it when completing your quarterly Form 941<sup>3</sup>

Please notify The Standard immediately of any errors or discrepancies on these reports. By notifying us before the end of the calendar year, we can review and correct any errors before generating the year-end Disability Income Report and other tax-related forms and statements.

3 For insured STD and SDI policyholders with an approved tax reporting service agreement with The Standard, we calculate and deposit any amounts due with the IRS and report this on our Form 941.

INSURANCE COMPANY		PAGE NO. : 3			
01/01/2004 THROUGH 01/31/04		RUN DATE: 01/31/2004			
CONTRACT: 123456		INSURANCE EFF DATE: 07/01/2004			
DATE:	08/30/2000	EMP CONT %:	100.00		
DATE:		EMP CONT %:	100.00		
DATE:	01/11/2002	FROM:	01/04/2002 TO: 01/09/2002		
STATEMENTS	ADJ. NET BENEFIT	DEDUCTIONS	PAYMENT AMOUNT	WITHHELD REPAYMENT	AMT ISSUED
0.00	136.00	10.40	125.60	0.00	125.60
	FI	8.43	O/P BAL:	0.00	
	ME	1.97			
DATE:	01/18/2002	FROM:	01/10/2002 TO: 01/16/2002		
STATEMENTS	ADJ. NET BENEFIT	DEDUCTIONS	PAYMENT AMOUNT	WITHHELD REPAYMENT	AMT ISSUED
0.00	170.00	13.01	156.99	0.00	156.99
	FI	10.54	O/P BAL:	0.00	
	ME	2.47			
DATE:	01/25/2002	FROM:	01/17/2002 TO: 01/23/2002		
STATEMENTS	ADJ. NET BENEFIT	DEDUCTIONS	PAYMENT AMOUNT	WITHHELD REPAYMENT	AMT ISSUED
0.00	170.00	13.01	156.99	0.00	156.99
	FI	10.54#	O/P BAL:	0.00	
	ME	2.47#			
*****					
DATE:	02/28/1983	INSURANCE EFF DATE:	07/01/2001		
DATE:		EMP CONT %:	100.00		
DATE:	01/25/2002	FROM:	01/17/2002 TO: 01/23/2002		
STATEMENTS	ADJ. NET BENEFIT	DEDUCTIONS	PAYMENT AMOUNT	WITHHELD REPAYMENT	AMT ISSUED
0.00	170.00	13.01	156.99	0.00	156.99
	FI	10.54	O/P BAL:	0.00	
	ME	2.47			
*****					
	ADJ. NET BENEFIT	DEDUCTIONS	PAYMENT AMOUNT	WITHHELD/ REPAYMENT	AMT ISSUED
	646.00	49.43	596.57	0.00	596.57
	FI	40.05			
	ME	9.38			

**Employer Contribution %**

Percent of premium contribution the IRS considers to have been paid by employer/plan sponsor for purpose of calculating taxable benefits.

**Adjusted Net Benefit**

Amount payable before withholding for deductions. Multiply this amount by the Employer Contribution % to determine how much is considered reportable as federal wages.

**Deductions**

Taxes and other withholdings. Refer to list of codes on last page of your actual report.  
Examples: FI - Social Security Tax  
ME - Medicare Tax

# - Indicates The Standard has remitted the matching employer FICA amount.

**Withheld Repayment**

Amount deducted to recover a claim overpayment.

**O/P Balance**

Amount by which the claim was overpaid as of this payment.

**Summary Totals**

## Disability Income Report

The Standard generates the annual Disability Income Report after the end of each calendar year to report to you the amount of LTD, STD and SDI benefits paid to disabled employees. On the Disability Income Report you will find information about each disabled employee who received disability benefits at any time during the prior calendar year. It includes employee name, address, Social Security number, along with yearly totals for benefit payments and all taxes withheld and adjusted during the previous year, from January 1 through December 31.

If we have established one or more tax unit addresses for you, each location receives this report, with information on only those employees associated with that specific tax unit address. Otherwise, we send the Disability Income Report to your primary address.

If you use an outside payroll vendor, please notify your vendor that you will receive the Disability Income Report with disability sick pay benefit information for the prior year in early January. Your vendor should not close your payroll books until after you receive this report. Failure to inform your vendor about this could result in your vendor charging you additional processing fees.

When you receive the annual Disability Income Report, you should prepare a W-2 form for disability benefits received by each disabled employee listed on the report, unless The Standard will be doing this. If The Standard will prepare a W-2 form for disability benefits received by an employee listed on the report, "We Prepared W-2" appears under the employee's name and address.

As a reminder, The Standard automatically prepares W-2 forms for your employees for the following disability benefits they receive:

- All LTD benefits
- All ASO STD benefits
- All insured STD and SDI benefits covered under group policies with active approved tax reporting service agreements

The taxable amount shown on the Disability Income Report is calculated by multiplying the total benefits issued for the year by the taxable percentage. The Standard relies upon the information you supply about premium contributions to determine the taxable percentage.

If the taxable percentage or any other information on the report is incorrect, please immediately notify The Standard so that all current and future tax statements and reports will be corrected. For any W-2 forms you may be preparing where the taxable percentage is incorrect on the report, you will need to recalculate the taxable amount using the correct taxable percentage.

# Disability Income Report



91 999999 TAX UNIT TX01

FEDERAL TAX ID# 000000001

ABC COMPANY  
ATTN PAYROLL DEPT  
1234 YOUR STREET  
YOUR TOWN OR 12345

DATE: 12/31/2004  
PAGE 1

## 2004 DISABILITY INCOME REPORT

PUBLIC LAW 96-601 REQUIRES INSURANCE CARRIERS TO REPORT THE AMOUNT OF DISABILITY PAYMENTS MADE TO YOUR EMPLOYEES LAST YEAR. WE MUST ALSO REPORT TO YOU THE AMOUNTS WITHHELD FOR TAXES. THE INFORMATION BELOW IS FOR YOUR USE IN PREPARING TAX FORMS FOR YOUR EMPLOYEES.

\* INDICATES THE CLAIM WAS SET UP IN 2004. IF REPAYMENT OR BENEFITS WITHHELD DATA APPEAR ON THE REPORT, REFER TO THE "DISABILITY INCOME REPORT INFORMATION" SECTION IN THE TAX PACKET FOR INSTRUCTIONS ON HOW CREDIT MAY BE REFLECTED ON THE W-2.

\*\*\*SHORT TERM DISABILITY\*\*\*

CLAIM NUMBER	MEMBER SS NUMBER		TAXES WITHHELD
*YOUR EMPLOYEE		BENEFITS ISSUED	10,179.41
00214514	555-55-5555	REPAYMENTS	.00
123 ANY STREET		BENEFITS WITHLD	428.19
YOUR TOWN OR 12345		NET BEN ISSUED	9,751.22
		NET TAXABLE AMT	9,751.22
		SS WAGE AMT	7,456.32
		MED WAGE AMT	7,456.32
		TIER 1 WAGE AMT	.00
		TIER 1 MED WAGE	.00
		GROSS TAXABLE	10,179.41
		TAXABLE %	100%
		UCT	.00
		STATE	.00
		FEDERAL	2,700.00
		S SECURITY	462.29
		MEDICARE	108.12
		RR TIER 1	.00
		TIER 1 MED	.00

\*\*LT - WE PREPARED W-2\*\*\*

WE PREPARED W-2	*****	2004 YTD TOTALS	CLAIM COUNT
		BENEFITS ISSUED	1
		REPAYMENTS	
		BENEFITS WITHLD	
		REPORTABLE BEN	
		TAXABLE AMOUNT	
		SS WAGE AMT	
		MED WAGE AMT	
		TIER 1 WAGE AMT	
		TIER 1 MED WAGE	
		UCT	.00
		STATE	.00
		FEDERAL	2,700.00
		S SECURITY	462.29
		MEDICARE	108.12
		RR TIER 1	.00
		TIER 1 MED	.00

Standard Insurance Company 1100 SW Sixth Avenue, Portland OR 97204

Your Federal Tax ID#  
Please notify us if this number is incorrect or missing.

Indicates type of insurance coverage.

Do not prepare a tax statement for these benefits. The employee will receive a W-2 form from The Standard.

Taxable %  
The portion of benefit considered taxable. Please notify us immediately if this is incorrect.

## Frequently Asked Questions

**We already prepared a W-2 form for the LTD, STD or SDI benefits one of our employees received from The Standard. The Disability Income Report shows that The Standard also prepared a W-2 form for this employee.**

**What should we do?**

If you mistakenly prepare a W-2 form for disability benefits for an employee for whom The Standard also prepared a W-2 form, you will need to amend your tax reports to prevent double reporting of the benefits to the IRS. Please contact your tax consultant for further information or advice about your specific situation.

**What about disabled employees no longer on our payroll?**

Under IRC Section 6051 (f), insurers are responsible for providing employers with information on disability benefits paid to employees, while employers are responsible for preparing W-2 forms for these employees, even if they are no longer employed with the employer. As a service to our customers, The Standard automatically prepares W-2 forms for LTD and ASO STD benefits received by disabled employees. If you have a tax reporting service agreement with The Standard, we prepare W-2 forms for disabled employees no longer on your payroll who received insured STD and SDI benefits in the prior year. If neither of these situations apply, then the employer is responsible for preparing W-2 forms for the insured STD and SDI benefits their employees received, even if they are not currently employed with the employer.

**Do we still have to provide W-2 forms to disabled employees for their regular wages?**

Yes. The Standard prepares W-2 forms for disability benefits only. You must prepare W-2 forms for any regular wages you paid to employees during the year. We suggest you contact your tax consultant for further information or advice about your particular situation.

**Why does our Disability Income Report have a field labeled “Federal”?**

If part or all of an employee’s disability benefits are subject to taxation, the employee may request that The Standard withhold a portion of benefits for federal income taxes. This voluntary withholding may ease the employee’s obligation when federal income taxes are due.

To have federal income taxes withheld from their disability benefits and remitted to the government, employees must complete and sign a Form W-4S and submit it to The Standard. The Standard will remit amounts withheld to the government and report these under The Standard’s name and tax identification number. The total amount withheld for the calendar year is listed on the Disability Income Report next to the label “Federal” and should be reflected on any W-2 form prepared for the employee.

For ASO STD plans, The Standard withholds federal income tax based on either the current IRS mandatory tax rate or the disabled employee’s Form W-4.

### **How do we calculate the Social Security and Medicare wages to enter on the W-2 form?**

If Social Security, Tier 1 or Medicare tax was withheld from STD or SDI benefits during the calendar year and you are responsible for the tax reporting, you must determine the Social Security, Tier 1 or Medicare wage amounts and enter them in the appropriate box on the W-2 form.

Generally, you can divide the amount of Social Security tax withheld by 0.0620 to get the Social Security Wage amount and divide the amount of Medicare tax withheld by 0.0145 to get the Medicare Wage amount.

### **If we are responsible for tax reporting, how do we balance our quarterly Form 941 and the W-2 forms we produce for STD and SDI benefits?**

When you prepare your quarterly Form 941, include the taxable benefit data and Social Security, Tier 1 and Medicare tax withholding data from the daily FICA/Tier 1 Tax Activity Report and monthly Group Benefits Activity Report. Verify that the information reflected on the Form 941 matches the W-2 forms you produce.

To balance the Form 941 and W-2 forms, only report on the Form 941 those taxable disability benefits and Social Security or Medicare tax amounts that you will include on the W-2 forms you will prepare. Do not report any LTD or ASO STD benefits information as The Standard will do this. Also, be sure to take into account any insured STD or SDI benefit payment adjustments.

You may want to refer to the IRS *Instructions for Forms W-2 and W-3* for more information. You may view or download these instructions from the IRS Web site at <http://www.irs.ustreas.gov/formspubs/index.html>.

### **What if our Form W-3 transmittal or magnetic tape has been prepared and mailed before we receive the Disability Income Report?**

Your options will vary depending on your situation. Contact your local IRS or Social Security office. You may also want to refer to:

- SSA Publication MMREF-1, *Magnetic Media Reporting and Electronic Filing*
- *Instructions for Forms W-2 and W-3*
- IRS Publication 15, *Circular E, Employer's Tax Guide*

## Glossary of Terms

<b>140 Report</b>	See <i>Group Benefits Activity Report</i> .
<b>Administrative Services Only</b>	Self-funded, employer-paid plan administered through an administrative services only (ASO) agreement.
<b>Administrative Unit Address</b>	A location specified by the policyholder/plan sponsor to which the monthly Group Benefits Activity Report is sent for a specific set of claims. A policyholder/plan sponsor may specify one or more administrative unit addresses. If no administrative unit address is identified, The Standard sends the Group Benefits Activity Report to the policyholder/plan sponsor's primary address. See also <i>Tax Unit Address</i> .
<b>ASO</b>	See <i>Administrative Services Only</i> .
<b>Contributory</b>	An insurance policy that is elective and for which employees pay all or part of the insurance premiums. If the employee pays the entire insurance premium with post-tax dollars, benefits received are not taxable to employees.
<b>DBL</b>	Disability Benefits Law insurance. Statutory weekly income benefits required by the State of New York to be paid to eligible employees who cannot work as the result of non-occupational, disabling injuries and illnesses.
<b>DIR</b>	See <i>Disability Income Report</i> .
<b>Disability Income Report</b>	The Standard generates this annual report after the close of the calendar year and provides it to each policyholder/plan sponsor with disabled employees who had LTD, STD or SDI claim activity during the prior year. The report identifies those disabled employees for whom The Standard will prepare W-2 forms, as well as those employees for whom the policyholder/plan sponsor is responsible for preparing W-2 forms. If we establish tax unit addresses for the employer, we send the reports to the respective tax unit addresses. Otherwise, the policyholder/plan sponsor's primary address receives this report.
<b>EIN</b>	See <i>Employer Identification Number</i> .

<b>Employer Identification Number</b>	The identifying number assigned by the IRS to organizations for tax reporting purposes.
<b>Federal Income Tax</b>	Portion of taxable income assessed by the federal government in order to satisfy an individual's federal income tax obligations. Federal income taxes may be withheld from disability benefits.
<b>Federal Unemployment Tax</b>	The policyholder/plan sponsor is responsible for payment of this tax if payable for LTD, STD and SDI benefit payments.
<b>FICA Tax</b>	Common term used for Social Security and Medicare taxes.
<b>FICA Tax Service Agreement</b>	See <i>Tax Reporting Service Agreement</i> .
<b>FICA/Tier 1 Tax Activity Report</b>	The Standard generates this daily report whenever FICA or Tier 1 tax activity occurs on disability benefits. This is the official notification to the policyholder/plan sponsor that The Standard has withheld or adjusted the employee portion of the FICA/Tier 1 taxes from disability benefits issued under the group policy or ASO plan. If we establish tax unit addresses for the policyholder/plan sponsor, we send the reports to the respective tax unit addresses. Otherwise, the policyholder/plan sponsor's primary address receives these reports.
<b>FIT</b>	See <i>Federal Income Tax</i> .
<b>Form 941</b>	Short name for Form 941 Employer's Quarterly Federal Tax Return. This is the federal tax return which employers file with the IRS each quarter to report payroll and taxes due.
<b>Form W-2</b>	Short name for Form W-2 Wage and Tax Statement. The tax form the IRS requires employers provide to employees to report income received each year regardless if the income is taxable or not. Commonly referred to as a W-2 form.
<b>Form W-3</b>	Short name for Form W-3 Transmittal of Wage and Tax Statements. This is the transmittal form that accompanies W-2 forms submitted by reporting entity to the IRS for processing. Commonly referred to as a W-3 form.

<b>FUTA</b>	See <i>Federal Unemployment Tax</i> .
<b>Group Benefits Activity Report</b>	Also referred to as the 140 Report, The Standard provides this monthly report to policyholders/plan sponsors to report on all LTD, STD and SDI benefit payments made to a policyholder/plan sponsor's disabled employees during the prior month. If we establish administrative unit addresses for the employer, we send the reports to the respective administrative unit addresses. Otherwise, the policyholder/plan sponsor's primary address receives these reports.
<b>IRC</b>	Internal Revenue Code.
<b>IRS</b>	Internal Revenue Service.
<b>LTD</b>	Long Term Disability.
<b>Non-contributory</b>	An insurance policy that is non-elective and the employer pays the entire insurance premium, or the employer requires all eligible members to have insurance and to pay all or part of the insurance premium. If the employer pays the entire insurance premium, all benefits received will be 100 percent taxable to employees. In the other situation, benefits received will be taxable to the employee in the same proportion that the employer paid the premium.
<b>Plan Sponsor</b>	The employer that sponsors a self-funded, employer-paid plan through an ASO agreement.
<b>Policyholder</b>	The employer who has an insured group policy with The Standard.
<b>Post-tax Premium Payment</b>	Premium payments that are paid with funds from which federal taxes have been deducted.
<b>Pre-tax Premium Payment</b>	Premium payments that are paid with funds from which federal taxes have not been deducted.
<b>Quarterly 941 Report</b>	See <i>Form 941</i> .
<b>Sick Pay</b>	IRS classification for LTD, STD and SDI benefits.
<b>SIT</b>	See <i>State Income Tax</i> .

<b>Social Security Administration</b>	The federal agency responsible for the collection of Social Security and Medicare taxes and administration of corresponding benefit payments.
<b>SSA</b>	See <i>Social Security Administration</i> .
<b>State Income Tax</b>	The portion of taxable income assessed by state governments to satisfy an individual's state income tax obligations. In some cases, state income taxes may be withheld from LTD, STD or SDI benefits.
<b>State Unemployment Tax</b>	The policyholder/plan sponsor is responsible for payment of this tax if payable for LTD, STD and SDI benefit payments.
<b>STD</b>	Short Term Disability.
<b>SUTA</b>	See <i>State Unemployment Tax</i> .
<b>Tax Reporting Service Agreement</b>	Written agreement between an insured STD or SDI policyholder and The Standard for The Standard to do the tax reporting and prepare the tax statements for insured STD or SDI benefits issued to the policyholder's disabled employees.
<b>Tax Unit Address</b>	A location specified by the policyholder/plan sponsor to which the daily FICA/Tier 1 Tax Activity Report and annual Disability Income Report are sent for a specific set of claims. A policyholder/plan sponsor may specify one or more tax unit addresses. If no tax unit address is identified, The Standard sends these reports to the policyholder/plan sponsor's primary address. See also <i>Administrative Unit Address</i> .
<b>Taxpayer Identification Number</b>	This may be a Social Security number for an individual or an Employer Identification Number for an employer.
<b>Third Party Sick Pay</b>	Sick pay benefits paid to an employee by a party other than the employer.
<b>Tier 1 Tax</b>	The equivalent of Social Security and Medicare taxes for railroad workers.
<b>TIN</b>	See <i>Taxpayer Identification Number</i> .

## Quick Reference Guide for All LTD Policyholders and ASO STD Plan Sponsors

### As The Standard Makes LTD and ASO STD Benefit Payments

#### The Standard:

- Calculates and withholds the employee's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Calculates the policyholder/plan sponsor's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Sends the daily FICA/Tier 1 Tax Activity Report to the policyholder/plan sponsor

#### The Policyholder/Plan Sponsor:

- Calculates the policyholder/plan sponsor's liability for FUTA, SUTA and other payroll taxes and deposits funds as required

### At the End of Each Month

#### The Standard:

- Sends the monthly Group Benefits Activity Report to the policyholder/plan sponsor

#### The Policyholder/Plan Sponsor:

- Verifies the accuracy of information on the Group Benefits Activity Report, including employee names and Social Security numbers, contract number and employer contribution percentage

### At the End of the Year

#### The Standard:

- Sends the annual Disability Income Report to the policyholder/plan sponsor by January 15
- Prepares and mails W-2 forms to disabled employees for LTD and ASO STD benefits they received from The Standard
- Reports yearly LTD and ASO STD benefit and tax withholding totals, as required, to the IRS and Social Security Administration

#### The Policyholder/Plan Sponsor:

- Reports FUTA, SUTA and other applicable payroll taxes paid during the year
- Prepares and mails W-2 forms to disabled employees for regular wages they received from the policyholder
- Reports regular wages and tax withholding totals, as required, to the IRS and Social Security Administration

## Quick Reference Guide for Insured STD and SDI Policyholders Without a Tax Reporting Service Agreement

### As The Standard Makes Insured STD and SDI Benefit Payments

#### The Standard:

- Calculates and withholds the employee's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Sends the daily FICA/Tier 1 Tax Activity Report to the policyholder

#### The Policyholder:

- Calculates the policyholder's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Calculates the policyholder's liability for FUTA, SUTA and other payroll taxes and deposits funds as required

### At the End of Each Month

#### The Standard:

- Sends the monthly Group Benefits Activity Report to the policyholder

#### The Policyholder:

- Verifies the accuracy of information on the Group Benefits Activity Report, including employee names and Social Security numbers, contract number and employer contribution percentage
- Calculates the policyholder's portion of FICA/Tier 1 taxes from the daily reports and compares to the monthly report to determine if any adjustments are needed and deposits funds as required with the IRS

### At the End of the Year

#### The Standard:

- Sends the annual Disability Income Report to the policyholder by January 15

#### The Policyholder:

- Prepares and mails W-2 forms to disabled employees for regular wages and insured STD and SDI benefits they received and reports yearly totals, as required, to the IRS and Social Security Administration
- Reports FUTA, SUTA and other applicable payroll taxes paid during the year

## Quick Reference Guide for Insured STD and SDI Policyholders With a Tax Reporting Service Agreement

### As The Standard Makes Insured STD and SDI Benefit Payments

#### The Standard:

- Calculates and withholds the employee's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Calculates the policyholder's portion of FICA/Tier 1 tax liability and deposits funds as required with the IRS
- Sends the daily FICA/Tier 1 Tax Activity Report to the policyholder

#### The Policyholder:

- Calculates the policyholder's liability for FUTA, SUTA and other payroll taxes and deposits funds as required

### At the End of Each Month

#### The Standard:

- Sends the monthly Group Benefits Activity Report to the policyholder

#### The Policyholder:

- Verifies the accuracy of information on the Group Benefits Activity Report, including employee names and Social Security numbers, contract number and employer contribution percentage

### At the End of the Year

#### The Standard:

- Prepares and mails W-2 forms to disabled employees for insured STD and SDI benefits they received from The Standard
- Reports yearly insured STD and SDI benefit and tax withholding totals, as required, to the IRS and Social Security Administration

#### The Policyholder:

- Reports FUTA, SUTA and other applicable payroll taxes paid during the year
- Prepares and mails W-2 forms to disabled employees for regular wages they received from the policyholder
- Reports regular wages and tax withholding totals, as required, to the IRS and Social Security Administration

## Give Us A Call

If you have questions concerning the taxation of LTD, STD or SDI benefits, contact The Standard's Tax Hotline at 800.525.3973.



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