



Tax Information

Taxable Percentage

According to the New York Disability Benefits Law (DBL) an employer may require employees to share in the cost of their disability insurance. An employer may deduct ½ of 1 percent of weekly wages, but not more than 60 cents per week. If your employees share in the cost of the insurance, their benefit may not be fully taxable.

Benefits will not be fully taxable if employee contributions are made with after tax dollars. It is necessary to break out the percentage of the premium paid by the employee contribution in order to determine the taxable percentage. The taxable percentage is that portion of the benefit payable to the employee that is subject to FICA and Income Tax. We only deduct FICA Taxes. For example, if the employee contributes 40% of the premium, only 60% of any benefit received will be taxable.

To calculate your company's taxable percentage, you will need three full years (if the plan has been in existence for that long) of premium and employee contributions. The premium figure used should be the net amount of premium paid. Net premium is the amount of premium paid during the year less any refunds or credits. The worksheet and example below will help you with the taxable percentage calculation. This percentage should be recalculated each year.

Example

ABC Company's employees contribute to the cost of their disability insurance. The employees contribute ½ of 1 percent of their weekly wages to a maximum of \$.60 per week.

POLICY NAME: <u>ABC Company</u> POLICY NUMBER: <u>01400-00</u>	(A)	(B)	(C)	(D)
(1) Policy or plan year	Year ending 12/31/2005	Year ending 12/31/2006	Year ending 12/31/2007	Totals
(2) Total net premium or net cost	\$10,000	\$11,000	\$12,000	\$33,000
Minus: (3) Total employee contributions	\$3,120	\$3,432	\$3,744	\$10,296
Equals: (4) Total employer contribution	\$6,880	\$7,568	\$8,256	\$22,704
(5) Ratio of employer contributions to net premium or net cost	$\frac{22,704}{33,000} = 0.6888$ or 69% - Employer Contributes			

In this example 69% of the benefit would be taxable for 2007, since the employees contribute 31% of the premium.

Please Calculate Your Taxable Percentage Using The Worksheet Below

POLICY NAME: _____ POLICY NUMBER: _____	(A)	(B)	(C)	(D)
(1) Policy or plan year	Year ending / /	Year ending / /	Year ending / /	Totals
(2) Total net premium or net cost	\$	\$	\$	\$
Minus: (3) Total employee contributions	\$	\$	\$	\$
Equals: (4) Total employer contribution	\$	\$	\$	\$
(5) Ratio of employer contributions to net premium or net cost	<u>Line 4 - Column D</u> <u>Line 2 - Column D</u> = _____ Employer Portion _____ + Employee Portion _____ = 100%			



It is important to report to us the correct taxable percentage. If we do not have the correct information, 100% of the benefits payable may be taxed. For example, if a claimant's gross benefit was \$170.00 and 100% of the benefit was taxed, the claimant would receive a net benefit of \$157.00. If 69% of the benefit was taxed, the claimant would receive \$161.03.

If you have any questions on how to calculate your company's taxable percentage, please call the DBL Department at (800) 421-3711.

Your Taxable Percentage Should Be Calculated Each Year. Please Notify Us If Your Taxable Percent Changes. Changes In Taxable Percentages Should Be Sent To:

Fort Dearborn Life Insurance Company® of New York
85 Allen Street, Suite 210
Rochester, NY 14608
Telephone: (800) 421-3711
Fax: (585) 482-5132

Unemployment Insurance Tax

Private sector employers subject to the Federal Unemployment Tax Act (FUTA) must pay New York State Unemployment Insurance taxes on payments to employees under a sickness plan. Only the first six months of sick payments are taxable. Note: For most DBL plans, the maximum benefit duration is 26 weeks, which is equivalent to six months. If you have any questions regarding this information, please contact your legal counsel or tax advisor.

Year End Information

Employers with employees who receive third party sick pay during the year are required to report this information to the Internal Revenue Service. We will send you a report at year end outlining the amount of sick pay paid to your employees during the calendar year. If you require this report more than once a year, please contact us at the telephone number shown above. If you have questions regarding tax laws and your responsibilities, please contact your legal counsel or tax advisor