Why should the Employer be concerned about taxes?

Special tax rules apply to the reporting of disability benefit (also referred to as sick pay by the IRS) payments to employees. Disability benefits generally refer to any amount paid under a plan because of an employee's temporary absence from work due to injury, sickness, or disability. Under the U.S. Internal Revenue Code, disability benefits may be taxable income to the employee. Generally, disability benefits are subject to the following taxes:

1. Federal Income Tax (FIT)
2. Social Security / Medicare Taxes (FICA)
3. State Income Taxes
4. Federal and State Unemployment Taxes (FUTA and SUTA)
5. Local Income Taxes, where applicable

If you offer short-term or long-term disability benefits to your employees, then you, as the Employer, need to be aware of the tax withholding and reporting requirements. For additional information please refer to your tax attorney or consultant or to IRS Publication 15-A, Chapter 6, Sick Pay Reporting on their website at www.irs.gov.

What is a taxable benefit?

The most important question to consider when determining if a disability benefit is taxable is whether the premiums are paid by the employer or the employee, and if employee paid, is the premium paid on a pre-tax or post-tax basis? Generally to the extent that disability premiums are paid by the employer, or by the employee on a pre-tax basis, the benefit is taxable. To the extent that the employee pays the disability premium with post-tax dollars, the benefit is nontaxable. There is an exception to the general rule for employer paid premiums that are reported as taxable wages to the employee. IRS Revenue Procedure 2004-55 permits employers to offer a plan where employees can elect on an annual basis to either have, the value of employer-provided coverage included in their income on an after-tax basis, or to have the value of their coverage excluded from their income. The premiums that are included in an employee’s wages are treated as employee paid and benefits received by such employees are nontaxable.

See Exhibit A (on the following page) for an illustration of benefit taxability.
Why does MetLife need to know the Premium Contribution Ratio?

MetLife needs to know the percentage of the disability premium that is considered employer paid (employer premiums that are not reported as wages to the covered employees and pre-tax employee contributions) and the percentage that is considered employee paid (post-tax employee contributions and employer contributions included in employee’s wages) in order to calculate the taxable portion of the disability benefits so that the correct amount of taxes, if any, are withheld from disability benefits.
What are the tax withholding requirements?

The tax withholding requirements for fully insured customers are outlined below.

<table>
<thead>
<tr>
<th></th>
<th>Federal Income Tax</th>
<th>Employee FICA</th>
<th>State Taxes</th>
<th>Local Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Insured</td>
<td>Voluntary</td>
<td>Mandatory</td>
<td>Voluntary</td>
<td>Voluntary</td>
</tr>
</tbody>
</table>

**Mandatory** withholding means the FICA taxes are automatically withheld from the taxable portion of an employee's benefit.

**Voluntary** withholding means that the disability benefit is not subject to income tax withholding unless, the disabled employee requests that an amount determined by the employee be withheld from his/her disability benefit. When filing a disability claim, the disabled employee must complete a Form W-4S indicating the amount of federal taxes to be withheld, if any. For state and local (where applicable) taxes, the employee must submit to the MetDisability Claims office in writing, the amount of state and/or local taxes to be withheld. Copies of Form W-4S can be obtained from the MetDisability Claims office, or on the IRS website at www.irs.gov.

For employees requesting federal withholding, the amount requested to be withheld must be at least $4 per day, $20.00 per week or $88.00 per month. There generally is no minimum amount that must be requested for state tax withholding. Note that the State of Illinois requires withholding for Illinois state taxes if federal withholding is elected.

How long is FICA withheld?

FICA taxes are required to be withheld for the period beginning on the date following the last day that the employee worked for the employer and ending on the date that is the last day of the sixth complete calendar month following the last day the employee worked. Both taxable STD and LTD payments issued within this time frame are subject to FICA taxes.

When are FICA taxes withheld longer than 6 months?

The six-month FICA period is actually longer than 6 months for all employees that begin a disability on any day other than the first day of the month. If the disability begins on any day other than the first day of the month, the benefits paid in that month and during the next 6 complete calendar months are subject to FICA. The period during the first month that the benefits are subject to FICA does not count in satisfying the six-month period. Only complete calendar months count when determining the end of the six-month period. Therefore, if the disability begins on any day other than the first of the month, the benefits are subject to FICA for the month that the disability begins plus the next six months.

If a disabled employee returns to work even for one day, and goes back on disability the next day, then the 6 month period that disability benefits are subject to FICA is restarted.

Assume an employee is on short-term disability and he/she attempts a return to work. Their original last date worked was January 6, 2012 and they return to work on February 6, 2012. While on the job they realize they are unable to work due to an ongoing condition and they return to a disabled status (i.e. recurrent disability) on February 7, 2012. For disability benefit purposes, the employee has already used up 30 of his/her 180 days so he/she is left with 150 more days of short-term disability. For FICA tax purposes, a new FICA tax period is started from the new last date worked of February 6, 2012.
In this instance, in accordance with the IRS regulations, MetLife is required to withhold FICA from benefits paid during the period February 7, 2012, and for six full months, which would mean FICA taxes would be withheld through August 31, 2012.

**What are the tax remittance requirements?**

Please see the following chart for a summary of responsibilities.

**Exhibit C: Party Responsible for Tax Remittance**

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Federal Income</th>
<th>Employee FICA</th>
<th>Employer FICA</th>
<th>FUTA &amp; SUTA</th>
<th>State Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Insured</td>
<td>MetLife</td>
<td>MetLife</td>
<td>Employer (see Note A)</td>
<td>Employer (see Note B)</td>
<td>MetLife</td>
</tr>
</tbody>
</table>

**Notes:**

A. **In Limited Situations** depending on group size, demographics and State situs **among other qualifications**, MetLife may be able to remit the employer portion of FICA. *Contact your Sales Representative to discuss qualifications and additional details.*

B. MetLife is unable to remit the Federal or State Unemployment Taxes on behalf of its customers.


**Taxable State for STD:** If the employee lives and works in the same state, disability benefits are taxable for that state, if that state is not one of the nontaxable states listed above. If an employee lives and works in different states, the state where the employee works is generally the state where the benefits are taxable, and the state that taxes will be withheld for if the employee requests withholding. However if the work state has a reciprocal agreement with the live state meaning that nonresidents employed in the state are not subject to tax in the work state, the benefits will be treated as taxable for the live state. If the state in which the employee works is one of the nontaxable states listed above, MetLife will treat the benefits as taxable for the employee's state of residence. If the state where the employee lives is also a nontaxable state, then the benefit is considered a nontaxable benefit for State income tax.

**Taxable State for LTD:** LTD is only treated as taxable for the state where the employee lives to determine if benefits are taxable for State income tax. If the state where the employee lives is a taxable state, then this is the state that MetLife may potentially withhold State income tax for if the employee requests withholding. If the state where the employee lives is a nontaxable state, then the benefit is considered a nontaxable benefit for State income tax.
**Who is responsible for issuing Form W-2s to my employees?**

For fully insured customers, MetLife will provide Federal and State W-2s upon receipt of written authorization from the customer. If the customer does not provide written authorization for MetLife to prepare the W-2s, the employer is responsible for reporting the disability benefits on Form W-2 to the employee. If the benefit is non-taxable, then a Form W-2 will not be issued. The W-2s produced by MetLife are mailed to the employee or employer as elected by the employer prior to January 31st of each year. The cost for producing W-2s is included in the premium rate.

**Whose name and EIN will appear as the employer on Form W-2?**

Since MetLife is not remitting the Employer share of FICA, then the Employer’s name and EIN will appear on Form W-2.

**What is Form 941?**

IRS Form 941, Employer's Quarterly Federal Tax Return, is required to be filed by employers to report wages, federal income tax withheld and the employee and employer shares of Social Security and Medicare taxes.

For insured benefits where MetLife is not acting as the employer’s agent for the employer’s share of FICA, MetLife reports the employee share of FICA taxes withheld from disability benefits payments on its Form 941, and the employer reports the employer’s share of FICA taxes it remitted on its Form 941. Both MetLife and the employer must make an adjustment on Line 8 of Form 941 for the portion of the taxes paid by the other.

**Instructions regarding the completion of Form 941 can be found on the Form itself and also on the IRS website in IRS Publication 15-A, Section 6.**

**Who is responsible for Federal and State Unemployment Taxes?**

The employer is required to include the taxable disability benefits paid by MetLife during the 6-month FICA period discussed above in the wages reported on their quarterly federal and state unemployment tax returns.

**When does MetLife issue 1099s?**

Payments of $600 or more in a calendar year are reported on 1099s in certain situations for disability. They are:

1. Final payment made to an employee’s beneficiary or estate in the event of claimant death
2. Survivor benefits - LTD plans where there is a survivor benefit paid to an employee’s beneficiary.
3. Pension supplements - disability plans that have taxable pension supplements

**When does MetLife need a 1099 sent to them?**

MetLife is a corporation that is exempt from reporting; therefore the employer is not required to file 1099 reporting payments to MetLife.
What kind of reports and letters can I expect to receive?

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Report Name</th>
<th>Frequency</th>
<th>Information Contained</th>
<th>Standard/Optional</th>
</tr>
</thead>
<tbody>
<tr>
<td>STD and/or LTD</td>
<td>Daily Reports</td>
<td>Each day a claim is paid</td>
<td>Notification of payments and tax withholding. (Used to remit Employer FICA if MetLife does not remit.)</td>
<td>Standard</td>
</tr>
<tr>
<td>STD and/or LTD</td>
<td>Quarterly Tax</td>
<td>Quarterly – produced the second day after the end of the quarter</td>
<td>Provides cumulative taxable wages and details on the amount of FICA, federal, state, and local taxes that are being withheld. (Used to determine the employer's FUTA and SUTA liabilities and to remit Employer FICA if MetLife does not remit.)</td>
<td>Standard (monthly available in place of quarterly)</td>
</tr>
<tr>
<td>STD and/or LTD</td>
<td>Employer W-2 Report</td>
<td>Annual – mailed during the first full week of January to be received no later than January 15th</td>
<td>Provides a summary of all W-2s generated during the year by MetLife and takes the place of the Employer copy of the employee W-2s.</td>
<td>Standard if MetLife issues the W-2s</td>
</tr>
<tr>
<td>STD and/or LTD</td>
<td>Year-end Report</td>
<td>Annual – mailed during the first full week of January to be received no later than January 15th</td>
<td>This report is run each January and replaces the 4th quarter Quarterly Tax report. This cumulative report contains taxable wages and details on the amount of FICA, federal, state, and local taxes that are being withheld.</td>
<td>Standard</td>
</tr>
</tbody>
</table>

** Reports are available upon request; please contact MetLife’s Customer Response Center at, 1-800-275-4638, prompts 2-3-3. Please refer to your “Group” or “Report” number located in the upper left portion of your “Master Tax System” report(s).