



FOR GROUP BENEFITS

Tax Reporting/Disability Benefits

Tax reporting guidelines for disability benefits

A guide for employers

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Tax reporting guidelines for disability benefits

The Internal Revenue Service (IRS) classifies long-term disability (LTD) and short-term disability (STD) benefits paid to your employees as sick pay. For the purposes of this document, we will refer to disability benefits paid as sick pay.

The IRS provides instructions regarding sick pay tax reporting in IRS Publication 15-A. In short, taxable and non-taxable sick pay must be included on an employee's IRS Form W-2. In certain situations, sick pay may be subject to Federal Income Tax (FIT) and Social Security/Medicare taxes (FICA).

The purpose of this brochure is to outline Lincoln sick pay tax reporting guidelines and to define who holds

tax-reporting responsibilities related to sick pay. For detailed instructions on sick pay tax reporting, you may refer to IRS Publication 15-A, which is available at www.irs.gov.

Taxability of sick pay benefits

Sick pay may be subject to federal and state income taxes. The taxability of sick pay depends on the following factors: (1) who is paying the premium (employer, employee or both) and (2) in cases when employee contributions apply, whether premiums are paid (via payroll deduction) with pre-tax or post-tax dollars. Table 1 outlines each scenario:

Table 1

When employer premium contribution is	Employee premium contribution is	Payroll premium deductions are	Taxes are due on this percentage of benefit
100%	0%	N/A	100%
Shared	Shared	Pre-tax	100%
Shared	Shared	Post-tax	Same proportion as premium percentage paid by employer
0%	100%	Pre-tax	100%
0%	100%	Post-tax	0%
100% under gross-up plan	0%	N/A	0%

Federal income tax (FIT) withholding

An employee must include the amount of taxable sick pay on the employee's individual income tax return. Lincoln does not withhold any FIT from fully insured disability benefits because the IRS does not require third party sick pay carriers like Lincoln to withhold FIT. An employee can voluntarily request FIT withholding from taxable sick pay by providing a completed IRS Form W-4S to their disability benefit specialist. The minimum amount that an employee can elect to have withheld from a monthly benefit payment is \$88.00.

The FIT withholding guidelines for STD ASO (self-insured plans) differ from fully insured plans. Self-insured plans are administered on a cost-plus-fee basis, and therefore Lincoln is considered an Employer's Agent by the IRS. Lincoln is required to withhold and deposit FIT from taxable STD ASO disability benefits.

State income tax (SIT) withholding

SIT withholding is not required on fully insured taxable sick pay in most states. Specific information is available with each state's revenue department.

The SIT withholding guidelines for STD ASO (self-insured plans) also differ from fully insured plans. The SIT withholding requirements in a cost-plus-fee arrangement are similar to the FIT requirements. Lincoln is also required to withhold and deposit SIT from taxable STD ASO disability benefits.

Federal and state unemployment taxes (FUTA and SUTA)

Lincoln does not calculate, remit, or file unemployment taxes on payments related to sick pay. Unemployment tax reporting and remittance are solely the employer's reporting responsibility.

Social Security and Medicare taxes (FICA)

As a third party sick pay carrier, Lincoln is required by statute to withhold FICA taxes from taxable sick pay. The employer portion of FICA responsibility varies.

FICA withholding applies to taxable sick pay payments made during the first six full calendar months of disability. Payments made after the six-month period are not subject to FICA. However, if the claimant returns to work at any time, the six-month period would start over again.

Employee FICA remittance*

Lincoln will withhold employee FICA from taxable disability benefits. This is reported and deposited under the Lincoln company name and Employer Identification Number (EIN).

Employer FICA remittance*

If Lincoln's FICA Match Service is included in the disability plan, Lincoln will deposit and report the employer portion of FICA under the Lincoln company name and EIN.

If Lincoln's FICA Match Service is not included in the disability plan, the employer is responsible for depositing and reporting the employer portion of FICA under their company name and EIN.

FICA reports

Lincoln provides monthly FICA reports to employers who have the employer FICA tax reporting responsibility. The monthly reports provide employee FICA amounts withheld from claims so the employer can determine the employer portion of FICA that is due. Monthly FICA reports can be mailed or e-mailed; they are also available on the Lincoln website: www.Lincoln4Benefits.com.

In addition, all employers will be mailed an annual FICA report.

*See Tables 2, 3 and 4 for a breakdown of tax reporting responsibilities.

FICA Match Service*

If Lincoln's FICA Match Service is included in the plan, Lincoln will pay the employer a portion of FICA taxes. When FICA Match Service is included in the plan, the employer is not required to complete a 941 statement for sick pay benefits. The employer is still responsible for Federal Unemployment Tax (FUTA) and State Unemployment Tax (SUTA) reporting and remittance.

FICA Match Service is automatically included in all LTD plans at no additional cost. It is also standard on STD ASO plans. Our FICA Match Service is available for fully insured STD plans for a reasonable cost.

FICA Match Service amendments

If an STD policy is amended to add or remove FICA Match Service, the amendment will apply to new claims (claims with a first payment date on or after the amendment effective date). Existing claims (claims that were paid prior to the amendment effective date) will not be included under the amendment. Employer FICA and W-2 reporting responsibilities remain the same for the duration of the applicable claims. See the two scenarios below:

1

If FICA Match Service is added to an STD policy, the employer will remain responsible for the employer portion of FICA and W-2 reporting on existing claims even when payments continue after the amendment effective date.

2

If FICA Match Service is removed from an STD policy, Lincoln will remain responsible for the employer portion of FICA and W-2 reporting on existing claims even when payments continue after the amendment effective date.

FICA Match Service cannot be added retroactively to a policy for a prior tax year.

W-2 reporting*

W-2 reporting responsibilities include preparing W-2s, distributing W-2s to employees, and reporting W-2s to the government. IRS Publication 15-A states that both taxable and non-taxable sick pay benefits are to be reported to the employee on IRS Form W-2.

Lincoln retains the W-2 reporting responsibility for LTD plans and STD plans that include our FICA Match Service.

*See Tables 2, 3 and 4 for a breakdown of tax reporting responsibilities.

Tax reporting responsibility tables

Table 2: LTD plans

Tax reporting activity	Lincoln responsibility	Employer responsibility
Employee FICA withholding and remittance (if applicable)	Yes*	No
Employer FICA remittance (if applicable)	Yes*	No
941 reporting	Yes*	No
W-2 reporting and distribution	Yes*	No
W-2 preparing and mailing	Yes*	No
W-2 corrections	Yes*	No
FUTA/SUTA	No	Yes

After year-end, annual FICA reports will be printed and mailed to the employer in January.

*Reporting done under Lincoln company name and EIN.

Table 3: STD plans with FICA Match Service

Tax reporting activity	Lincoln responsibility	Employer responsibility
Employee FICA withholding and remittance (if applicable)	Yes*	No
Employer FICA remittance (if applicable)	Yes*	No
941 reporting	Yes*	No
W-2 reporting and distribution	Yes*	No
W-2 preparing and mailing	Yes*	No
W-2 corrections	Yes*	No
FUTA/SUTA	No	Yes

After year-end, annual FICA reports will be printed and mailed to the employer in January.

*Reporting done under Lincoln company name and EIN.

Table 4: STD plans without FICA Match Service

Tax reporting activity	Lincoln responsibility	Employer responsibility
Employee FICA withholding and remittance (if applicable)	Yes*	No
Employer FICA remittance (if applicable)	No	Yes
941 reporting	Yes* (employee FICA withholding)	Yes (employer FICA)
W-2 reporting and distribution	No	Yes
W-2 preparing and mailing	No	Yes
W-2 corrections	No	Yes
FUTA/SUTA	No	Yes

Monthly FICA reports will be sent to the employer. After year-end, an annual FICA report will also be printed and mailed to the employer in January.

*Reporting done under Lincoln company name and EIN.

STD W-2 Print Service

Lincoln’s W-2 Print Service is a paperwork printing service available on fully insured STD plans; it is not available on STD ASO plans. This is an optional service available to the employer at no cost to assist in fulfilling the employer’s W-2 reporting responsibilities. Please note: If you plan to add STD payments to your employees’ regular wage W-2s, this service is not applicable.

The employer is responsible for paying, depositing and reporting the employer portion of FICA and W-2 reporting related to STD payments, unless Lincoln’s FICA Match Service is included in the plan.

With the W-2 Print Service, Lincoln will print your W-2 paperwork (with your company name and EIN). We will mail the paperwork to you during the second or third week of January each year. Your company is responsible for reviewing paperwork for accuracy, distributing the W-2s to employees, and reporting W-2s to the government.

The W-2 Print Service package will include the following information:

- W-3 Transmittal of Wage and Tax Statement (for the Social Security Administration)
- W-2 Copies A (for the Social Security Administration)
- Employer W-2 copies (Copy 1/D)
- Employee W-2s and the corresponding number of envelopes
- Lincoln Third Party Sick Pay Recap (for reference only)

IMPORTANT: Requesting this service does not change your employer FICA and W-2 reporting responsibilities. Table 5 is a reference for tax reporting responsibilities.

Table 5

Tax reporting activity	Lincoln responsibility	Employer responsibility
Employee FICA withholding and remittance (if applicable)	Yes*	No
Employer FICA remittance (if applicable)	No	Yes
941 reporting	Yes* (employee FICA withholding)	Yes (employer FICA)
W-2 reporting and distribution	No	Yes
W-2 preparing and mailing	Preparing (under employer EIN) and mailing W-2 paperwork to employer	Distribution to employees
W-2 corrections†	No	Yes
FUTA/SUTA	No	Yes
<i>Monthly FICA reports will be sent to the employer. After year-end, an annual FICA report will also be printed and mailed to the employer in January.</i>		

* Reporting done under Lincoln company name and EIN.

† W-2 corrections after IRS filing are solely your company’s responsibility. However, prior to IRS filing, LFG can make corrections to your W-2 Print Package if the request is received by the last business day in February.

General questions

Q: Is it possible to receive the year-end FICA report prior to January?

A: *No. All benefit payments and tax transactions must appear on the year-end report, which is produced after the close of the calendar year. Annual FICA reports will be mailed in January and will be available January 10 at www.Lincoln4Benefits.com.*

Q: Who can be contacted if the FICA report appears to be wrong?

A: *If you believe there is a discrepancy on the FICA report, you may contact our Customer Service area by calling 800 423-2765, press option 1, or e-mail claims@lfg.com. Please note: Dollar amount changes cannot be made after the calendar year has ended. Adjustments to dollar amounts would be reflected on the FICA report in the year the change occurred.*

Q: Is an electronic file available for W-2 Print Service?

A: *No. Our W-2 Print Service does not provide capability for magnetic or electronic filing.*

Q: We have not selected your FICA Match Service for our STD coverage. How does the IRS match up the employer portion of FICA we pay and report to the employee FICA that Lincoln withholds and deposits?

A: *If FICA Match Service is not selected, the employer FICA liability is transferred to the employer, creating a shared tax-reporting scenario. When shared tax reporting exists, the IRS requires that your 941 contain a special adjusting entry for FICA taxes. This will show that the tax liability is split between you and a third party. For complete instructions regarding these entries, you may refer to the Sick Pay Reporting section of IRS Publication 15-A.*

Q: We received an IRS notice indicating the amount we reported under our TIN for a prior year is not matching up with what was deposited.

A: *Typically, this type of IRS notice is generated when shared tax reporting exists, and the employer did not make a special adjusting entry (see the preceding question) on Form 941. The IRS is unaware that the employee portion of FICA was deposited and reported by a third party sick pay carrier. To resolve the issue, you can provide the IRS with Lincoln's company name, our TIN and our FICA report for the applicable tax year; you may call our Customer Service area to obtain this information at 800 423-2765, press option 1, or e-mail claims@lfg.com.*



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