

Are My Social Security Benefits Taxable?

By: Carol Bailiff, CPA 6/12/17

A few clients have asked this question, "Are my social security benefits going to be taxable?" My answer- it depends! How much other income do you have? Consider not only all taxable income, but non-taxable interest as well. So my answer "It depends" is based on the total of the amount of your adjusted gross income plus nontaxable interest plus $\frac{1}{2}$ of your social security benefits.

For questions pertaining to social security, I encourage you to visit the website by the Social Security Administration. They are a terrific resource. Please visit the website <https://www.ssa.gov> for more info.

The easy answer:

If you file single and your "combined income" including social security is less than \$25,000, your social security benefits are not taxable. If over \$25,000, the maximum amount of social security income that could be taxed is 85%.

If married filing joint your combined income would need to be greater than \$44,000 for your social security income to be taxed at a maximum of 85%.

The more difficult answer is derived by breaking it down by steps:

Step 1. Calculate "combined Income:"

A. First figure adjusted gross income -

a.) Determine your gross income

Wages, salary, tips: _____

Taxable interest: _____

Capital gains (losses): _____

Total IRA distributions - only the taxable amount: _____

Pensions, annuities - only the taxable amount: _____

Other income: _____

* Include as "other income" any income you may have received from your business; alimony; unemployment compensation; rental real estate; royalties, partnerships, S corporations and trusts; farm income; and any taxable Social Security benefits. Also include taxable refunds, credits, or offsets in state and local income tax.

Gross income does not include gifts and inheritances, tax-free Social Security benefits and tax-free interest from state or local bonds.

Add Nontaxable interest (if any) _____

Total Gross Income: _____

b.) Next determine your deductions:

IRA contributions: _____

Student loan interest: _____

Moving expenses: _____

One-half of self-employment tax: _____

Self-employed health insurance contribution: _____

Contributions to SEP, SIMPLE and qualified plans for yourself: _____

Other deductions: ** _____

Total deductions: _____

** Include as "other deductions" any alimony paid, deductions for Archer Medical Savings Accounts, and penalties paid on early withdrawal of savings.

c.) Calculate AGI:

Total Gross Income _____

Less Total deductions _____

= Adjusted Gross Income (AGI:) _____

B.) Calculate combined income:

Adjusted Gross Income (AGI:) _____

+ Nontaxable Interest _____

+ ½ of your Social Security benefits*** _____

= **Combined Income** _____

***Take ½ of social security benefits paid for the year. That's net benefits from Box 5 of Form SSA-1099.

Step 2. Answer these questions:

1. Do you file single or head of household?

If combined income is \$25,001 up to \$34,000, up to 50% of benefits are taxable.

If combined income is greater than \$34,000, 85% of benefits are taxable.

2. Are you married and file jointly?

If combined income is over \$32,000 and under \$44,001 up to 50% of benefits are taxable.

If combined income is above \$44,000, up to 85% of benefits are taxable.

3. Are you married and file separately? You probably will pay taxes on your benefits.

Whew, that wasn't so bad! As always, seek the advice of your tax manager if you have any questions.

(Sources: SSA.gov & IRS.gov)