Abundant Life FINANCIAL

Social Security Taxation Worksheet

Did you know your Social Security benefits could be subject to taxation? Though the money you've put into Social Security comes from your taxes, once you claim benefits at least some of your benefits could be subject to income taxes too. Make sure you work that reality into your retirement plan.

Below is a quick way to determine if your benefits may be taxable.

Determine if Your Social Security Benefits are Taxable

In order to figure out if your Social Security benefits are subject to taxation, we need to start by calculating your provisional income. Simply put, your provisional income is half your Social Security income plus your adjusted gross income plus any tax exempt interest you received. However, the actual computation can be a little more detailed.

A. Enter the amount from Box 5 of ALL your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2020, for 2020 and earlier years. (If you received more than one form, combine the amounts from Box 5 and enter the total.

B. Multiply Line A by 50%:

C. Enter your total income that is taxable (excluding Line A), such as pensions, wages, interest, ordinary dividends and capital gain distributions. Don't reduce your income by any deductions, exclusions or exemptions.

D. Enter any tax-exempt interest income, such as interest on municipal bonds.

E. Add Lines B, C and D:

Compare the amount on Line E to your base amount for your filing status. Your base amount is $25,000 (single, head of household or qualifying widow/widower or if you are married filing separately and lived apart from your spouse for all of 2020), $32,000 (married filing jointly) or $0 (married filing separately and lived with your spouse at any time during 2020).

If the amount on Line E equals or is less than the base amount for your filing status, none of your benefits are taxable this year. If the amount on Line E is more than your base amount, some of your benefits may be taxable. You will need to complete Worksheet 1 in IRS Publication 915. However, you may still have to file a tax return, even if you're not paying taxes, if your income exceeds the minimum filing requirement.

An Example – No Taxes Paid, But Still Have to File

You and your spouse (both over 65) are filing a joint return for 2020 and you both received Social Security benefits during the year. In January 2021, you received a Form SSA-1099 showing net benefits of $6,000 in Box 5. Your spouse received a Form SSA-1099 showing net benefits of $3,000 in Box 5. You also received a taxable pension of $25,000 and interest income of $1,000. You didn't have any tax-exempt interest income.

A. Box 5 total: $9,000
B. Multiply by 50%: $4,500
C. Taxable income: $26,000
D. Tax-exempt interest income: $0
E. Total B, C, and D: $30,500

In this scenario, your benefits aren't taxable for 2020 because your income isn't more than your base amount ($32,000) for married filing jointly. Even though none of your benefits are taxable, you must file a return for 2020 because your taxable gross income exceeds the minimum filing requirement amount for your filing status of married filing jointly ($27,400).

Total Taxable Amount

If you end up with taxes on your Social Security benefits, you'll either be taxed on 50% or 85% of your benefits. Note that is NOT the amount of taxes you'll pay, but the amount of your Social Security income that would be subject to taxes. If you received $33,000 in Social Security income – which puts you over your base amount – then most likely you'd be taxed on $16,500 that year.

You could have 85% of your benefits taxed if:

- The total of half of your benefits and all your other income is more than $34,000 ($44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2020.

One scenario that could lead to higher taxation of your Social Security benefits is if you have a large 401(k) or IRA. Say you receive $20,000 in Social Security benefits and take out 5% from your $1 million IRA each year in retirement. That puts you at a provisional income of $60,000 ($50,000 from your IRA, plus half your Social Security benefits), which means most of your Social Security benefits will be taxed. However, if you had a Roth IRA instead and took the same 5% distribution of $50,000, your Social Security benefits would not be taxable, as the Roth IRA distribution is non-taxable and therefore your AGI would be lower. So it's not just important to understand how your Social Security benefits are taxed, but also how other retirement savings tools can impact this calculation.

If you get into taxable territory with your Social Security, fill out Worksheet 1 in IRS Publication 915 to determine the amount. Also, discuss with your advisor benefits and tax-efficient strategies that could possibly help you minimize this tax bill.

Get in Touch Today!

The Social Security program offers you, and the rest of the country, one of the most lucrative retirement investments available. The returns are good and the investments are safer than any other available retirement investment vehicle.

However, as with all retirement planning, strategy is important and intentional planning is needed. Get in touch today so we can help you maximize your benefits and minimize loss!

Make an Appointment

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