Taxes on Social Security Benefits

The Social Security benefits you receive during retirement may not be completely tax-free income. In general, Social Security income is not taxed; it is only when you earn additional income (either by continuing to work or from investments) that tax begins to play a role in your Social Security income. If, however, you do not earn or receive other income throughout the year, you should not have to worry about being taxed on your Social Security benefits.

Provisional Income

To determine whether or not you owe taxes, you need to calculate your provisional income. To do so, consider your earned wages from working (and your spouse's, if you're married), any additional sources of income, and even your tax-exempt interest income, such as from municipal bonds (but not Roth IRA withdrawals). Add that sum to half of the social security benefits you received to arrive at your provisional income.

Limits

Once you find your provisional income, you can determine whether you exceed the predetermined thresholds, which depend on your marital status. For tax year 2015, if you're single, you can make up to $25,000 in provisional income before paying taxes on Social Security income. If you make between $25,000 and $34,000, you may be subject to taxation on up to 50 percent of your Social Security income, while a provisional income of $34,000 and above may subject you to up to 85 percent taxation.

For married couples filing jointly, the numbers shift slightly higher: the 50 percent taxation threshold is $32,000, and the 85 percent threshold is $44,000. Fortunately, you will never owe taxes on 100 percent of your Social Security income, regardless of your provisional income and filing status.

Taxable Social Security Income
(taken from www.ssa.gov)

Filing Status	Provisional Income	Percentage of Social Security income with potential to be taxed
Single (or Head of Household or Qualifying Widower)	<$25k	0%
	$25k-$34k	Up to 50%
	$34k+	Up to 85%
Married Filing Jointly	<$32k	0%
	$32k-$44k	Up to 50%
	$44k+	Up to 85%

David Becker

Northern Oak Wealth Management, Inc.
(414) 278-0590
www.northern-oak.com
555 E. Wells St. Suite 1625
Milwaukee, WI 53202

A married couple filing separately may have to pay taxes on 85 percent of their Social Security income, no matter how low their provisional income is, so filing separately is not a viable option for those trying to avoid the tax. The only situation that this does work in is when a couple did not live together for part of the year.

Examples

Say you and your spouse each earned $12,000 at your part-time jobs this year. You also earned $15,000 in investment income, and you received a total of $24,000 in Social Security benefits. Your provisional income is $51,000. We arrived at this number by adding your wages, interest income and half of your Social Security benefits. As a married couple filing jointly, $51,000 is above both thresholds, so you might owe taxes on 85 percent of your $24,000 Social Security benefit.

If you were single, still earned $12,000 this year, received $10,000 in investment income and $10,000 in Social Security benefits, your provisional income is $27,000. In this example, you may have to pay taxes on 50 percent of your Social Security benefits.

How to File

If you owe taxes on your Social Security benefits, you'll have to use Form 1040 or Form 1040A. Use Form SSA-1099, which you should receive prior to filing, to help determine your provisional income. This form shows the amount of benefits you received in a given tax year. IRS Publication 915 contains a worksheet that can help you estimate the amount of taxable Social Security income you have and how much you owe. When you do determine what percentage of benefits you owe taxes on, those benefits are taxed at your regular income rate. If it would be helpful to you, you may be able to pay your Social Security benefits taxes via quarterly estimated tax payments or choose to have taxes withheld throughout the year.

Tax Strategies

The best way to minimize your Social Security taxation is to consult with an advisor or tax professional. However, there are also several rules of thumb that may work for your situation:

- Try to accelerate income into a single year to avoid paying high taxes over a number of years.
- If you're close to the threshold, hold off accepting income until the following year, if possible.
- Contribute to pre-tax 401(k) or IRA accounts to shelter cash savings from tax.
- If you're converting a traditional IRA to a Roth account, it may be helpful to spread the conversions over several years.
- Delay claiming Social Security benefits until after full retirement age.
- Delay withdrawing from retirement accounts until necessary.
- If you're still working, full or part time, consider decreasing your hours to lower your wage income.

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