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SOCIAL SECURITY ADVISOR

Social Security Planning for Retirement

WHAT'S INSIDE?

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Peeling Back the Layers of Income Tax on Social Security Benefits

Deciphering the rules regarding income tax on Social Security benefits is extremely challenging for recipients as well as for financial and tax professionals. In fact, the formula to reach the end result is one that does not appear in any other part of tax accounting principles.

Furthermore, practitioners tend to apply generalities that may or may not line up with an accurate depiction of how Social Security benefits are taxed. To clarify matters, this issue provides a path through this tax maze, hopefully dispelling some misconceptions along the way.

Step one is determining a recipient's provisional income (PI), which the SSA also calls combined income. PI is the sum of three sources of income:

- Modified adjusted gross income (MAGI) (For this purpose MAGI is adjusted gross income reported on a tax return minus taxable Social Security benefits.); *plus*
- Tax-exempt interest; *plus*
- 50% of Social Security/Railroad Retirement benefits.

Following the Forms

The key numbers covering Social Security benefits can be found in Box 5 of Form SSA-1099 or Form RRB-1099-R. This box shows the net Social Security or railroad retirement benefits (RRB) received. The Box 5 totals are then reported on line 6a of IRS Form 1040, the recipient's income tax return.

Caution: If the SSA-1099 or RRB-1099-R forms include benefits payable on behalf of a dependent, those benefits are taxable to the person who is legally entitled to them. For example, payments to a minor child should be subtracted from the parent's PI and included in the child's own PI calculation.

Another wrinkle that may appear is the repayment of previous benefits paid. Any benefits repaid during the calendar year, even for an overpayment of benefits for a prior year, may be deducted from gross benefits received. This deduction should be reflected in Box 4 on the SSA-1099 or RRB-1099-R, with the net benefits reported in Box 5.

Tracking the Thresholds

Once the taxpayer's true PI is determined, that amount is compared to the relevant base amount:

- For tax return filing status single, head of household, qualifying surviving spouse, or married filing separately and living apart from their spouse the entire year: **$25,000 - $34,000;**