

# Will You Have to Pay Tax on Social Security Benefits?

Some people are under the misconception that Social Security benefits are always free from federal income tax. However, depending on how much income you have from other sources, you may have to report up to 85% of your benefits as income on Form 1040 and pay the resulting federal income tax.

If this happens, you're effectively getting taxed *twice* on the same dollars:

- **First**, you're taxed during your working years when you have to pay federal income taxes on Social Security tax amounts that are taken out of your salary or self-employment earnings.
- **Then**, you're taxed again if you have to pay federal income tax on Social Security benefits. (Depending on where you live, you may have to pay state income taxes too.)

This article explains the two steps needed to find out if your Social Security benefits will be taxed.

## Step 1: Figure Your Provisional Income

The amount of Social Security benefits that you must report as taxable income depends on your *provisional income* for the year. To calculate it, start with your adjusted gross income ("AGI"), which is the amount on the last line on Page 1 of your Form 1040. (However, don't count Social Security benefits when figuring your AGI.) Next, take that AGI number and add the following amounts (only the first two actually apply to most taxpayers):

- Half (50%) of your Social Security benefits.
- Tax-free municipal bond interest income.
- Tax-free interest on U.S. Savings Bonds used to pay for qualified college expenses.
- Tax-free adoption assistance payments from your employer.
- The deduction for student loan interest.
- The write-off for higher education tuition and related fees.
- The domestic production activities deduction.
- Any other Page 1 write-offs that are separately entered on line 36 of Form 1040.
- Tax-free foreign earned income and housing allowances and certain tax-free income from Puerto Rico or U.S. possessions.

### Avoid Estimated Tax Penalties

If you do have to pay federal taxes on your Social Security benefits, you can make quarterly estimated tax payments to the IRS, or choose to have federal taxes withheld from your benefits.

The result of this calculation is your "provisional income" for the year.

## **Step 2: Find Your Social Security Scenario**

Once you know your provisional income, you can determine which of the following three scenarios you fall under.

### **Scenario A: All Benefits Are Tax-Free**

If your provisional income is \$32,000 or less, and you file a joint tax return with your spouse, your Social Security benefits are federal-income-tax-free (but you might still owe state income tax).

If your provisional income is \$25,000 or less, and you don't file jointly, the general rule is that you don't owe federal income tax on your Social Security benefits. (However, there are less favorable rules if you're married and file separately from your spouse who lived with you at any time during the year.)

As you can see, a tax-free outcome only happens if your provisional income is low.

### **Scenario B: Up to 50% of Benefits Are Taxed**

If your provisional income is between \$32,001 and \$44,000, and you file jointly with your spouse, you must report up to 50% of your Social Security benefits as income.

For single taxpayers, if your provisional income is between \$25,001 and \$34,000, you must report up to 50% of your Social Security benefits as income.

### **Scenario C: Up to 85% of Benefits Are Taxed**

If your provisional income is more than \$44,000, and you file jointly with your spouse, you must report up to 85% of your Social Security benefits as income on Form 1040.

If your provisional income is more than \$34,000, and you don't file jointly, the general rule is that you must report up to 85% of your Social Security benefits as income on Form 1040.

You also must report up to 85% if you're married and file separately from your spouse who lived with you at any time during the year — unless your provisional income is zero or a negative number (which is rare).

You now know whether or not you owe federal income tax on your benefits, but you still don't know exactly how much tax you'll actually owe. The calculations to get to that number are complicated and your tax advisor will handle them when filing your return. Your advisor can also help with tax planning to keep your taxes as low as possible during retirement.

**The Law Office of Eugene Gorrin, LLC**  
17 Watchung Avenue, Suite 204  
Chatham, NJ 07928  
973.701.9300  
[egorrin@gorrinlaw.com](mailto:egorrin@gorrinlaw.com)  
[www.gorrinlaw.com](http://www.gorrinlaw.com)