Minimizing Tax on Social Security Benefits

Article Highlights:

- Income as a Factor
- Filing Status as a Factor
- 85% Maximum Taxable
- Base Amounts
- Deferring Income
- Maximizing IRA Distributions

Whether your Social Security benefits are taxable (and, if so, how much of them are) depends on a number of issues. The following facts will help you understand the taxability of your Social Security benefits.

- For this discussion, the term "Social Security benefits" refers to the gross amount of benefits you receive (i.e., the amount before reduction due to payments withheld for Medicare premiums). The tax treatment of Social Security benefits is the same whether the benefits are paid due to disability, retirement or reaching the eligibility age. Supplemental Security Income (SSI) benefits are not included in the computation because they are not taxable under any circumstances.
- How much of your Social Security benefits are taxable (if any) depends on your total income and marital status.
    - If Social Security is your only source of income, it is generally not taxable.
    - On the other hand, if you have other significant income, as much as 85% of your Social Security benefits can be taxable.
    - If you are married and filing separately, and you lived with your spouse at any time during the year, 85% of your Social Security benefits are taxable regardless of your income. This is to prevent married taxpayers who live together from filing separately, thereby reducing the income on each return and thus reducing the amount of Social Security income subject to tax.
- The following quick computation can be done to determine if some of your benefits are taxable:

  Step 1. First, add one-half of the total Social Security benefits you received to the total of your other income, including any tax-exempt interest and other exclusions from income.

  Step 2. Then, compare this total to the base amount used for your filing status. If the total is more than the base amount, some of your benefits may be taxable.

  The base amounts are:

  - $32,000 for married couples filing jointly;
  - $25,000 for single persons, heads of household, qualifying widows/widowers with dependent children, and married individuals filing separately who did not live with their spouses at any time during the year; and
  - $0 for married persons filing separately who lived together during the year.

Where taxpayers can defer their "other" income from one year to another, such as by taking Individual Retirement Account (IRA) distributions, they may be able to plan their income so as to eliminate or minimize the tax on their Social Security benefits from one year to another. However, the required minimum distribution rules for IRAs and other retirement plans have to be taken into account.

Individuals who have substantial IRAs—and who either aren't required to make withdrawals or are making their post age 70.5 required minimum distributions without withdrawing enough to reach the Social Security taxable threshold—may be missing an opportunity for some tax-free withdrawals. Everyone's circumstances are different, however, and what works for one may not work for another.

If you have questions about how these issues affect your specific situation, or if you wish to do some tax planning, please give this office a call.