

## Receiving Social Security Can Be Taxing

### Article Highlights:

- Social Security Taxability
- Taxability Thresholds
- Working and Drawing Social Security
- Pension Distributions and Social Security Taxability
- Planning Pension Distributions

Generally, your Social Security (SS) benefits are not taxable until your modified adjusted gross income (MAGI) is more than the base amount for your filing status. MAGI is your regular AGI (without Social Security income) plus 50% of your Social Security income plus tax-exempt interest income plus certain other infrequently encountered modifications.

The base amounts (threshold where the SS benefits become taxable) are:

- \$25,000 if you are single, a head of household, a qualifying widow or widower with a dependent child, or married filing separately and did not live with your spouse at any time during the year;
- \$32,000 if you are married and file a joint return;
- Zero if you are married filing separately and lived with your spouse at any time during the year.

Thus, if your only income were SS benefits, you would likely not be subject to income tax on those benefits. However, if you are filing a joint tax return and your MAGI exceeds \$32,000, then some portion of the SS benefits will become taxable. The amount that is added to taxable income ranges from 50% to 85% of the SS benefits in excess of the threshold.

If you are drawing SS benefits and working, you may find that the added income from working will cause you to be subject to dual taxation. How can this be, you ask? Since your SS taxation is based upon your income, the additional income from working may cause some or a good portion of your SS benefits to be taxable. For example, take a married couple that has a small pension, some investment income, and SS income.

Retirement Income	Total	Without Work Income	With Work Income
Interest & Dividends	2,500	2,500	2,500
Pension & IRA Income	25,000	25,000	25,000
<b>Social Security Benefits</b>	<b>12,000</b>	<b>750</b>	<b>9,825</b>
Work Income			15,000
Total Income Subject to Tax		28,250	52,325
			↳ <28,250>
<b>Net Increase in Income Subject to Tax</b>			<b>24,075</b>

In the example above, the \$15,000 income from working caused an additional \$9,075 (\$9,825 - 750) of Social Security to become taxable, in effect causing the couple to be taxed on \$1.61 for every \$1 earned by working.

A similar issue can occur when withdrawing from an IRA or other retirement plan. Additional IRA withdrawals can have the same effect as working. For example: you decide you need a new car and take a larger than necessary withdrawal from your IRA account to

pay for the vehicle. That extra IRA distribution could create an unpleasant surprise by causing more of your SS benefits to be taxable.

This also brings up another important fact. If you have an IRA account and your income is such that you are not required to file or are in an unusually low tax bracket, you might want to consider withdrawing as much as possible from your IRA without triggering any tax, causing any additional SS benefits to be taxable, or hitting the next tax bracket, even if you don't need the funds.

Keep in mind that whether you are currently working and are about to receive Social Security benefits, already receiving SS benefits and planning on returning to work, or are planning to take an abnormally large IRA distribution, the tax implications can be substantial and require your timely attention.

Please contact this office for assistance in planning for the additional tax liability created from working, drawing Social Security, and taking IRA distributions.