



Will your Social Security benefits be taxable?

Last year, the new tax deduction for taxpayers 65 and older was sometimes referred to as “no tax on Social Security.” In actuality, this up-to-\$6,000-per-individual deduction, also known as the “senior” deduction, is generally available whether or not someone receives Social Security benefits. (But other limits do apply, such as an income-based phaseout.)

Of course, the senior deduction can help reduce taxes on Social Security benefits. However, some retirees are already exempt from tax on Social Security, while others may have to report benefits that far exceed their senior deduction. How much of your Social Security benefits must be reported as taxable income depends on your provisional income, your overall income and IRS thresholds.

How much is your provisional income?

The first step in calculating provisional income is subtracting your Social Security benefits from your adjusted gross income (AGI). AGI is your income from taxable sources after certain so-called “above-the-line” adjustments but before the standard deduction or itemized deductions and certain other deductions, such as the senior deduction, are applied.

Examples of above-the-line adjustments include traditional IRA contributions, Health Savings Account contributions and student loan interest. Because many Social Security recipients have fewer of these adjustments (or none at all), their AGI is often close to (or even the same as) their total income from taxable sources.

After your Social Security benefits have been subtracted from your AGI, the following are added to it:

- 50% of Social Security benefits,
- Any tax-free municipal bond interest income,
- Any tax-free interest on U.S. Savings Bonds used to pay college expenses,
- Any tax-free adoption assistance payments from your employer,
- Any deduction for student loan interest, and
- Any tax-free foreign earned income and housing allowances, and certain tax-free income from Puerto Rico or U.S. possessions.

The result is your provisional income. Once you know your provisional income, you can see what portion, if any, of your Social Security benefits will be subject to income tax.

Will all your benefits be tax-free?

Generally, your Social Security benefits will be federal-income-tax-free if:

- Your provisional income is \$32,000 or less and you file a joint return with your spouse, or
- Your provisional income is \$25,000 or less and you *don't* file jointly — unless you're married and file separately from your spouse who lived with you at any time during the year (in which case, see "Will up to 85% of your benefits be taxable?" below).

These thresholds went into effect in 1984 and have never been adjusted for inflation. As a result, the number of retirees subject to federal tax on some of their Social Security benefits has been increasing over the years.

Also keep in mind that you might owe state income tax even if you don't owe federal tax, depending on your state.

Will up to 50% of your benefits be taxable?

Generally, up to 50% of Social Security benefits must be reported as taxable income on Form 1040 if:

- Your provisional income is over \$32,000 but not more than \$44,000 and you file jointly, or
- Your provisional income is over \$25,000 but not more than \$34,000 and you *don't* file a joint return (again — unless you're married and file separately from your spouse who lived with you at any time during the year).

In general, the taxable portion of Social Security benefits gradually increases as provisional income rises. So if your provisional income is near the bottom of the range, you may have to report only a small portion of your benefits as taxable income. If your provisional income is near the top, you may have to report close to 50%. However, the reportable percentage also is affected by the amount of your Social Security benefits relative to other income.

Will up to 85% of your benefits be taxable?

Generally, up to 85% of Social Security benefits must be reported as taxable income on Form 1040 if:

- Your provisional income is over \$44,000 and you file jointly, or
- Your provisional income is over \$34,000 and you *don't* file a joint return (unless you file a separate return from your spouse who lived with you at any time during the year, in which case you must report up to 85% of your benefits if your provisional income is above \$0).

The exact percentage depends on the amount by which your provisional income exceeds the applicable threshold and the size of your Social Security benefits relative to other income.

Project provisional income and plan

If you have to report a portion of your Social Security benefits as taxable income, smart tax planning can potentially reduce or even eliminate the liability. We can help you accurately project your provisional income, assess your eligibility for the senior deduction and review your overall tax situation to identify strategies that make sense for you.