

BUILDING FINANCIAL SECURITY

The Taxation of Social Security Benefits

For millions of retirees, Social Security makes up the largest share of their retirement income. The majority pays no federal income tax on their benefits. But if you have income over certain thresholds, your benefits could be taxable.

This is a separate issue from the earnings limit if you work and receive Social Security benefits. Ask your employer for our tip sheet on Social Security and Work. Also, check out www.aarp.org/retirement for resources to help you plan for retirement.

WHAT GETS TAXED?

Part of your Social Security benefits is taxable if your “provisional” income exceeds certain thresholds. If your income exceeds the lower threshold, up to 50% of your Social Security benefits could be taxable. If your income exceeds the higher threshold, up to 85% of your Social Security benefit could be taxable.

	INCOME	BENEFITS SUBJECT TO TAX
Single filers	Under \$25,000	0%
Lower threshold	\$25,000 - \$34,000	Up to 50%
Higher threshold	\$34,000 and up	Up to 85%
Married filing jointly	Under \$34,000	0%
Lower threshold	\$32,000 - \$44,000	Up to 50%
Higher threshold	\$44,000 and up	Up to 85%

WHAT COUNTS AS PROVISIONAL INCOME?

The income sources that you report on your tax return are the basis for applying taxes on your benefits. “Provisional income” includes all sources of taxable income, like pensions, interest and dividends, and wages. Tax-exempt interest counts, too. Provisional income also includes one half of your Social Security benefits.

Here’s an example of a single filer who won’t owe federal income taxes on his Social Security benefits, since his income didn’t reach the \$25,000 threshold.

INCOME SOURCE	ANNUAL INCOME
Pension benefits	\$15,000
Interest income	\$1,500
Half of Social Security benefit	\$7,500
Total income	\$24,000



WHAT COUNTS AS PROVISIONAL INCOME?, CONTINUED

An additional \$2,000 in non-Social Security income for 2016 would have pushed this filer over the lower income threshold, making a portion of his Social Security benefits taxable.

Here's an example of a retired married couple filing jointly that went over the lower income threshold for couples of \$32,000:

This couple exceeded the lower threshold by \$3,000, making a portion of their Social Security benefits subject to income taxes.

INCOME SOURCE	HUSBAND'S ANNUAL INCOME	WIFE'S ANNUAL INCOME
Pension benefits	\$11,000	
Consulting income		\$11,000
Half of Social Security benefit	\$7,000	\$6,000
Total income	\$18,000	\$17,000
Couple's total income		\$35,000

HOW IS THE TAX APPLIED?

Let's look at the case of the married couple above that exceeded the first but not the second threshold. The tax will apply to the smaller of half of their Social Security benefits (\$13,000) or half the amount by which their income exceeded the threshold (\$1,500). If they are in the 10% income tax bracket, the tax will apply to \$1,500, which equals \$150.

WHEN DO I PAY WHAT I OWE?

Each year, you will receive a Social Security benefit statement (Form SSA-1099) showing the benefits you received in the prior year. Use it when you complete your federal income tax return to find out if any of your benefits are taxable.

If your income puts you over the threshold, you may want to pay the tax throughout the year. If you wait until you file your return, you may pay a penalty in addition to the amount you owe.

You can have taxes withheld from your Social Security benefits by filing Form W-4V with the Social Security Administration. Or, you can make quarterly estimated payments to the IRS using Form 1040-ES.

WHAT ABOUT STATE TAXES?

Currently, 13 states tax all or part of Social Security benefits, while 37 states and the District of Columbia exempt them.



TAKE ACTION!

- Plan for your retirement, estimate your benefits and more with a my Social Security account at www.ssa.gov.
- Use AARP's Social Security Benefits Calculator at www.aarp.org/socialsecuritybenefits to help you decide when to claim your benefit.
- Make a plan for your retirement. Be specific and set realistic goals to help make retirement attainable. Go to www.aarp.org/retirement for resources to help you plan for retirement.
- Refer to IRS publication 915, "Social Security and Equivalent Retirement Benefits," for more information on whether your Social Security benefits may be subject to taxation, at www.irs.gov.

