

## Will Your Social Security Benefits Be Taxed?

### Who Pays Taxes on Benefits?

An estimated 14.5 million Social Security beneficiaries,<sup>1</sup> nearly one-third, paid taxes on their benefits in 2000 because they had incomes above designated thresholds.<sup>2</sup>

In general, beneficiaries with combined income<sup>3</sup> above **\$25,000** for a single individual,<sup>4</sup> and **\$32,000** for a married couple filing jointly have to pay taxes on their benefits.

The portion of benefits that is taxable depends on combined income, i.e., the total of one-half of benefits plus other income. (See p. 2, lines 3, 4, and 6.)

- **If the beneficiary files a federal tax return as an individual, and** has a combined income between \$25,000 and \$34,000, or **the beneficiary and spouse file a joint return and** have a combined income between \$32,000 and \$44,000, then the amount of benefits subject to tax is the lesser of:
  - (1) 50 percent of the Social Security benefit amount or
  - (2) 50 percent of income over the first threshold. (See lines 8 through 18 on the worksheet.)
- **If the beneficiary files a federal tax return as an individual, and** has a combined income over \$34,000, or **the beneficiary and spouse file a joint return and** have a combined income over \$44,000, the amount of benefits subject to tax is the lesser of:

- (1) 85 percent of the Social Security benefit amount **or**
- (2) 85 percent of income over the second threshold, plus the smaller of
  - (a) \$4,500 (single), \$6,000 (couple)<sup>5</sup> **or**
  - (b) 50 percent of the Social Security benefit amount. (See lines 12 through 18 on the worksheet.)

### Where Does the Money Go?

Beginning in 1984, up to one-half of an individual's or couple's Social Security benefit was subject to income tax. Revenues raised from this first tier (taxation of up to 50 percent of benefits) are allocated back to the OASDI trust funds.

After 1993, the maximum percentage of benefits subject to tax was increased from 50 to 85 percent. Revenues raised from this second tier of taxation (from 50 to 85 percent of benefits) are allocated back to the Hospital Insurance trust fund (Medicare).

### Will My Benefits Be Taxed?

On the following page is a worksheet with side-by-side examples. The first example is a single filer with \$5,980 from Social Security and \$28,990 in other income. The second example is a couple filing jointly with \$5,600 from Social Security and \$29,750 in other income. The blank column is for you to use to estimate whether and how taxation of Social Security benefits applies in your case.

<sup>1</sup> Social Security beneficiaries include those who receive Old Age, Survivors and Disability Insurance (OASDI) benefits.

<sup>2</sup> Source: U.S. House of Representatives Committee on Ways and Means, 2000 Green Book, p. 65.

<sup>3</sup> On the 1040 tax return, combined income is the sum of adjusted gross income plus nontaxable interest plus one-half of the Social Security benefit amount. (See lines 1-7 on the worksheet.)

<sup>4</sup> Head of household and qualifying widow(er).

<sup>5</sup> The dollar amounts of \$4,500 and \$6,000 represent 50 percent of the difference between the \$25,000 and \$34,000 threshold, and 50 percent of the difference between the \$32,000 and \$44,000 threshold respectively.

## Worksheet for Estimating the Taxable Portion of Your Social Security Benefit

	Your Own	Example: Filing Single	Example: Filing Jointly
1) Enter total annual Social Security (SS) benefit amount (box 5 of any SSA-1099 and RRB-1099).	1)	\$ 5,980	\$ 5,600
2) Enter one-half of SS benefits from line 1.	2)	\$ 2,990	\$ 2,800
3) Enter taxable income excluding SS benefits (IRS Form 1040 lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19 and 21, and Form 1040a lines 7, 8a, 8b, 9, 10, 11b, 12b, and 13).	3)	\$28,990	\$29,750
4) Enter the total of any exclusion for U.S. savings bond interest, foreign-earned income, or housing.	4)	0	0
5) Add lines 2, 3, and 4 (total income).	5)	\$31,980	\$32,550
6) Enter total adjustments/deductions (IRAs, Keoghs, alimony etc. from 1040a, line 16 or 1040 line 32 minus line 24).	6)	0	\$1,000
7) Subtract line 6 from line 5 (income minus deductions).	7)	\$31,980	\$31,550
8) Enter \$25,000 if filing separately or \$32,000 if filing jointly (the first income thresholds).	8)	\$25,000	\$32,000
9) Subtract line 8 from line 7. (This determines if, or how much of, a filer's combined income is over the first thresholds). If this number is 0, then benefits are not taxable.	9)	\$ 6,980	
10) Enter \$9,000 if filing separately or \$12,000 if filing jointly. (When added to the thresholds in line 8, the second income thresholds are reached - \$34,000 and \$44,000.)	10)	\$ 9,000	
11) Subtract line 10 from line 9. (This determines how much income is over the second threshold.)	11)	0	
12) Enter the smaller of line 9 or line 10. (This determines the portion of income that falls between the first and second threshold.)	12)	\$ 6,980	
13) Enter one-half of line 12 (50 percent of income over the first threshold.)	13)	\$ 3,490	
14) Enter the smaller of line 2 (50 percent of benefits) or line 13 (50 percent of income over the first threshold).	14)	\$ 2,990	
15) Multiply line 11 by 0.85 (85% of income over the second threshold)	15)	0	
16) Add lines 14 and 15.	16)	\$ 2,990	
17) Multiply SS benefit amount from line 1 by 0.85 (85% of benefits).	17)	\$ 5,083	
18) Enter the smaller of the numbers from lines 16 or 17. This is the amount of Social Security benefits subject to federal income tax.	18)	\$ 2,990	

**This worksheet is only a guide. Consult a professional for details on your tax form.**

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