

## Federal Taxation of Social Security Benefits

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With millions of baby boomers close to retirement age and job losses inflicting financial strain on additional millions, many taxpayers are looking to social security benefits for financial assistance. So, we thought this would be a good time to discuss how social security benefits are taxed by the federal government.

Individuals may have to pay federal income taxes on up to 85% of their social security benefits. Inclusion within taxable income can occur if you have other substantial income from wages, self-employment, interest, dividends, and other taxable income in addition to your social security benefits. However, no one pays federal income tax on more than 85% of his or her social security benefits.

The amount of your social security benefits included in federal taxable income depends on your provisional income. Provisional income (PI) is generally your adjusted gross income (AGI) plus nontaxable interest, one-half of your social security benefits, and some other AGI add-backs. If you file as an individual, head of household, or a qualifying widow or widower, and your PI is between \$25,000 and \$34,000, you may pay federal income tax on up to 50% of your benefits. If your PI is more than \$34,000, then up to 85% of your benefits may be taxable.

If you are married and file a joint return and you and your spouse have combined PI of between \$32,000 and \$44,000, you may have to pay federal income tax on up to 50% of your benefits. If your PI is more than \$44,000, then up to 85% of your benefits may be taxable. If you are married and file a separate return, you will probably pay taxes on your benefits.

Social security recipients can have federal income tax withheld from their benefit payments, if desired. Withholding is voluntary and can be initiated at 7%, 10%, 15%, or 25% by filing Form W-4V (Voluntary Withholding Request).

**Boomer Alert:** The percentage of workers who have little or no money in savings or investments is disturbingly high. The Employee Benefits Research Institute ([www.ebri.org](http://www.ebri.org)) reported in its annual Retirement Conference Survey that 56% of respondents had less than \$25,000 saved in 2011 (not including the value of their primary residence or any defined benefit plan). This is up from previous years (54% in 2010, 52% in 2009, 49% in 2008, and 48% in 2007).