

Is Your Social Security Taxed –and If So, What Can You Do?

Depending on your total income, the government will tax your social security income up to 85%. Let's see how this happens¹ and what you can do about it.

Your 'base' income along with your filing status determines how much of your social security is taxed. Your base income is your adjusted gross income plus any tax free bond interest plus 50% of your social security income.

Simply compare your base income to certain threshold amounts depending on your filing status – (1) single or head of household; or (2) married filing jointly. If you are filing married filing separately, 85% of your social security will always be taxed.

The table centered above gives the threshold incomes that you compare your base income with for each filing status, with the resulting fraction of your social security that is taxed.

Single or head of household thresholds	Married filing jointly thresholds	Fraction of your Social Security Income Taxed
Less than \$25,000	Less than \$32,000	No tax on your soc. Sec. income
\$25,000 to \$34,000	\$32,000 to \$44,000	50% of Soc. Sec. income or 50% of amount PI exceeds threshold – whichever is less
Over \$34,000	Over \$44,000	Most will be 85% taxed - but do IRS worksheet

According to the table, your social security is tax-free if you file as single or head of household with a base income of less than \$25,000. The same would be true if you are filing jointly with a base income less than \$32,000.

If your base income falls within an intermediate range for you filing status, then either 50% of the excess of your base income over the lower threshold OR 50% of your social security income – WHICHEVER IS LESS – will be taxed.

If your base income is greater than your filing status' high threshold, most instances produce 85% tax on social security.

So depending on your income level, when extra taxable income comes in during the year – say from stock sales – you need to pay the tax on those sales, but that income pushes up the tax on your social security. That is a double whammy on your tax bill.

So what can you do to minimize taxation of your social security?

In years where selling stocks or other actions will push your social security into a higher taxable level, you may want to put off that sale until another year. So to the extent that your income options

permit it, you will group your taxable sales into alternate years where social security will be taxed at 85% ,but in the off years it will be taxed at 50% or less, hopefully.

Give us a call or fill out the reply coupon so we can help you adjust your investment options and transactions to minimize the double whammy effect.

¹ All from IRS Publication 915