



Learning about the Social Security tax torpedo

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One of the least understood aspects of Social Security income is how it's taxed. Sometimes it's known as the "tax torpedo" because taxes on Social Security benefits can be minimal or nonexistent until all of a sudden they blow up with the potential of almost doubling a person's tax rate!

To understand how this could happen, let's start with a quick overview of the taxation of Social Security. Like most things related to taxes, the calculation is not simple. Instead of walking through the 19-step process (which is available for those really interested in IRS Publication 915 on page 16), I'll highlight the major items starting with the fact that, under current law, you'll never pay taxes on all of your Social Security income.



The current limit on the amount of benefits subject to tax is 85 percent. The actual amount is dependent on your other income (including tax-exempt interest income). As your other income increases, so does the amount of Social Security benefits subject to income taxes. This is why you cannot determine whether you owe taxes on your Social Security income without knowing your other income for the year, too.

As you reach certain threshold amounts, the portion of Social Security income subject to tax increases. For example, an individual with \$36,000 of other income plus \$22,000 of Social Security income would be in the 25 percent regular tax bracket. If the person received an additional \$1,000 of income, they would pay \$462.50 of tax (or 46.25 percent) because more Social Security benefits would also be subject to taxes. While this higher rate is only for a limited amount of additional income, it's still a significant increase that many people are not familiar with.

To know whether your Social Security income is subject to income taxes, there are a couple of guidelines. For individuals, if their income plus half of their Social Security benefit is greater than \$25,000, then part of their Social Security income is subject to taxes. For couples, if their income plus half of their combined Social Security benefits is greater than \$32,000, then they will also pay taxes on part of their Social Security income.



The importance of understanding the taxation of Social Security benefits is to avoid the surprise of paying more taxes than the previous year because you've been hit by the tax torpedo.



November 2013

REMINDER! November Workshop: Social Security & You

FSG's Justus Morgan and Justin Moilanen will share the basics of Social Security including how benefits are determined for workers, spouses, and surviving spouses as well as the interaction between claiming now versus delayed benefits and how different claiming strategies can significantly impact your retirement income sustainability.

This interactive presentation to be held at our office on Wednesday, November 20 from 6:30 p.m. to 8 p.m. is for individuals and couples getting close to the age when they may start collecting Social Security retirement benefits.



To reserve your seat, please call Lori at 262-554-4500 ext. 105 by November 18. Seating is limited.

Gobble, gobble – FSG holiday hours



Our offices will be closed on November 28 and 29 while we celebrate and appreciate our family and friends. All of us at Financial Service Group are thankful for our clients, friends, supporters and community throughout the year.

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