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When is Social Security Income Taxable?

The answer depends on your income.

Provided by Chris Eller

Your Social Security income could be taxed. That may seem unfair, or unfathomable. Regardless of how you feel about it, it is a possibility.

Seniors have had to contend with this possibility since 1984. Social Security benefits became taxable above certain yearly income thresholds in that year. Frustratingly for retirees, these income thresholds have been left at the same levels for 32 years.[1]

Those frozen income limits have exposed many more people to the tax over time. In 1984, just 8% of Social Security recipients had total incomes high enough to trigger the tax. In contrast, the Social Security Administration estimates that 52% of households receiving benefits in 2015 had to claim some of those benefits as taxable income.[1]

Only part of your Social Security income may be taxable, not all of it. Two factors come into play here: your filing status and your combined income.

Social Security defines your combined income as the sum of your adjusted gross income, any non-taxable interest earned, and 50% of your Social Security benefit income. (Your combined income is actually a form of modified adjusted gross income, or MAGI.)[2]

Single filers with a combined income from $25,000-$34,000 and joint filers with combined incomes from $32,000-$44,000 may have up to 50% of their Social Security benefits taxed.[2]

Single filers whose combined income tops $34,000 and joint filers with combined incomes above $44,000 may see up to 85% of their Social Security benefits taxed.[2]

What if you are married and file separately? No income threshold applies. Your benefits will likely be taxed no matter how much you earn or how much Social Security you receive.[2]

You may be able to estimate these taxes in advance. You can use an online calculator (a Google search will lead you to a few such tools), or the worksheet in IRS Publication 915.[2]

You can even have these taxes withheld from your Social Security income. You can choose either 7%, 10%, 15%, or 25% withholding per payment. Another alternative is to make estimated tax payments per quarter, like a business owner does.[2]

Did you know that 13 states also tax Social Security payments? North Dakota, Minnesota, West Virginia, and Vermont use the exact same formula as the federal government to calculate the degree to which your Social Security benefits may be taxable. Nine other states use more lenient formulas: Colorado, Connecticut, Kansas, Missouri, Montana, Nebraska, New Mexico, Rhode Island, and Utah.[2]

What can you do if it appears your benefits will be taxed? You could explore a few options to try and lessen or avoid the tax hit, but keep in mind that if your combined income is far greater than the $34,000 single filer and $44,000 joint filer thresholds, your chances of averting tax on Social Security income are slim. If your combined income is reasonably near the respective upper threshold, though, some moves might help.

If you have a number of income-generating investments, you could opt to try and revise your portfolio, so that less income and tax-exempt interest are produced annually.

A charitable IRA gift may be a good idea. You can make one if you are 70½ or older in the year of the donation. You can endow a qualified charity with as much as $100,000 in a single year this way. The amount of the gift may be used to fully or partly satisfy your Required Minimum Distribution (RMD), and the amount will not be counted in your adjusted gross income.[3]

You could withdraw more retirement income from Roth accounts. Distributions from Roth IRAs and Roth workplace retirement plan accounts are tax-exempt as long as you are age 59½ or older and have held the account for at least five tax years.[4]

Will the income limits linked to taxation of Social Security benefits ever be raised? Retirees can only hope so, but with more baby boomers becoming eligible for Social Security, the IRS and the Treasury stand to receive greater tax revenue with the current limits in place.

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