

Social Security: Lump-Sum Payments

Background

The process of applying for and being awarded Social Security Disability Insurance (SSDI) benefits is frequently very lengthy. An applicant must provide extensive medical records, in some cases be examined by a Social Security Administration-referred physician, and often go through several administrative appeal processes. The entire process can take several years to complete.

When it is determined that an applicant is disabled, the Social Security Administration establishes an "onset date"—the date on which the applicant became permanently disabled. SSDI benefits are considered to be owed to the recipient from the onset date to the present.

In the year in which the applicant is determined to be disabled, the SSA pays them all benefits they are entitled to, from the onset date to the present, in one lump-sum payment. After the lump-sum payment is received, benefits resume on a monthly basis.

The taxpayer will receive Form 1099-SSA showing the lump-sum payment in **Box 3**, with a breakdown of the benefits by year in the **Description of Amount in Box 3** area of the form.

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT			
2016		<input type="checkbox"/> PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. <input type="checkbox"/> SEE THE REVERSE FOR MORE INFORMATION.	
Box 1. Name JESSICA DENISE ELLSWORTH		Box 2. Beneficiary's Social Security 061-00-3344	
Box 3. Benefits Paid in 2015 \$42,148.00	Box 4. Benefits Repaid to SSA in 	Box 5. Net Benefits Paid for 2015 (Box 3 minus Box 4) \$42,148.00	
DESCRIPTION OF AMOUNT IN BOX 3 Paid by check or direct deposit \$42,148.00 Medicare Part B premiums deducted from your benefits \$0.00 Medicare Prescription Drug premiums (Part D) deducted from your benefits \$0.00 Total Additions \$42,148.00 Benefits for 2015 \$17,858.00		DESCRIPTION OF AMOUNT IN BOX 4 <div style="background-color: #4169E1; color: white; padding: 5px; text-align: center; font-weight: bold; font-size: 1.2em;">Sample SSA-1099 Lump-Sum Distribution</div>	
Benefits for 2014 \$16,540.00 Benefits for 2013 \$7,750.00 Benefits for 2012		Box 6. Voluntary Federal Income Tax Withheld	
		Box 7. Address JESSICA DENISE ELLSWORTH 1734 HILLSDALE CIRCLE ALBUQUERQUE, NM 87110	
		Box 8. Claim Number (use this number if you need to contact SSA) 061-00-3344A	

Note: Do not confuse this type of lump-sum benefit payment with the lump-sum death benefit that both the SSA and Railroad Retirement Board (RRB) pay to many of their beneficiaries. Death benefit lump-sum payments are never taxable.

How to Assist the Taxpayer

The taxable portion of a lump-sum payment of benefits received during the tax year must be included as income for the taxpayer in that year, even if the payment includes benefits for an earlier year.

There are **TWO OPTIONS** for reporting the lump-sum payment on the tax return:

Option 1. Enter the data on the taxpayer's Form 1099-SSA exactly as it appears, thereby recognizing the entire payment in the current tax year; **or**

Option 2. Use the Lump Sum Payments worksheet to calculate the taxable amount of benefits for each tax year they were received for, thereby assigning the SS benefits to the tax year they belong to.

- Tax Slayer will automatically calculate the taxable amount of benefits received for each tax year and the income tax, if any, owed for those years.
- The amount of income tax the taxpayer will pay in the current tax year is minimized.
- **There is no need to amend prior year tax returns to recognize the additional SS income.**

Important: To determine which option will provide the most favorable outcome for the taxpayer, the taxpayer must provide copies of tax returns for each tax year included in the lump-sum benefit. The tax years needed can be found in the **Description of Amount in Box 3** area of Form 1099-SSA.

If the taxpayer cannot produce copies of the tax returns for each of those years, then **Option #1** is used.

Using the Lump Sum Worksheet in TaxSlayer

1. In TaxSlayer, navigate to **Federal Section** **Income** **1099-R, RRB-1099, RRB-1099-R, SSA-1099** **Social Security/RRS-1099**.
2. In the **Social Security SSA-1099/RRB-1099 Tier I** screen, report the data from Form 1099-SSA.
3. Click on **Begin Worksheet**. The Social Security Lump Sum Payment worksheet opens onscreen.
4. Using the taxpayer's prior year returns, complete one worksheet for each tax year for which payments were received. See below for information on completing the Worksheet.

Form SSA-1099 Lump-Sum Distributions



Income>Form 1099-R, RRB, SSA>Social Security Benefits/RRB 1099>Begin Worksheet; or Keyword SSA

Social Security Lump-Sum Payment

CANCEL

CONTINUE

Year the lump sum payment was made for
 1

Filing Status in Earlier Year*
 2

SSA Payments received in Earlier Year
 3 4

Portion of this years SSA for Earlier year*

Modified Adjusted Gross Income for Earlier Year*
 5

Taxable Benefits Reported in Earlier Year
 4

1. Enter relevant year, as shown on Form SSA-1099. If more than one year has prior year payments use additional Lump-Sum worksheet.
2. Drop-down menu is available for prior year Filing Status.
3. If the prior year return was MFJ, include Social Security payments received that year by BOTH taxpayer and spouse.
4. Leave the SSA payments received in an earlier year and/or the taxable benefits reported in an earlier year boxes empty if not applicable. All other boxes require entries. The calculation won't be correct without the prior year Modified AGI. The software will determine total taxable Social Security based on these entries.
5. To calculate modified AGI, add the following income to prior year AGI:
 - Tax-exempt interest (Form 1040)
 - Student loan interest deduction (Schedule 1)
 - Foreign earned income exclusion or housing deduction (Form 2555)
 - Exclusion of certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico
 - Adoption benefits (Form 8839)
 - Qualified U.S. Savings Bond interest (Form 8815)