Social Security Benefits

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Calculate the taxable portion of social security benefits to know whether a client is over our income limit [INTAKE TOOL]

Not all social security benefits are taxable! If a client's SSA-1099 box 5 amount plus other income is over $55,000 (for a family of four or fewer), follow this tool to see if they might actually be under our income limit.

First, let's see if any of the social security benefits are taxable. Here's an approximate calculation:

1. Take ½ of the amount in box 5 on the SSA-1099 + all regular taxable income.
   (If both spouses receive a SSA-1099, add box 5 amounts.)
2. Compare that total to these base amounts:
   a. $25,000 if the client is single, head of household, qualifying widower, or married filing separate and lived apart from spouse for the whole year
   b. $32,000 if the client is married filing joint

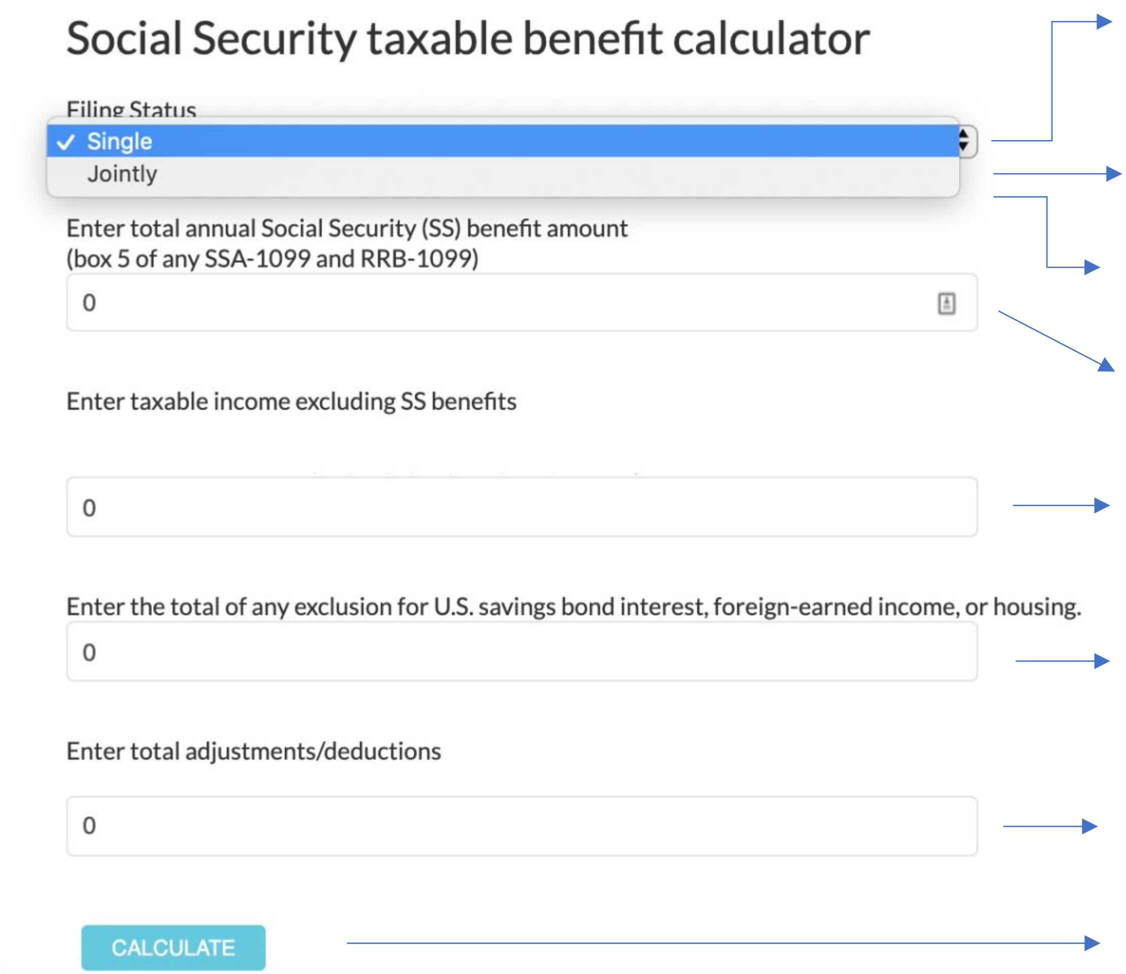
- If your total is ***less*** than the base amount, none of the social security payment is taxable. You can exclude the SSA-1099 box 5 amount when calculating income eligibility.
- If your total is ***more*** than the base amount, continue with this tool on the next page to determine approximately how much of the social security beenfits to include:

INTAKE TOOL: will a client with social security benefits meet our income limit?

Click HERE to use the Social Security taxable benefit calculator for TY 2018.

(You'll need to scroll up a little on the webpage.)

[Below are some tips to help correctly complete the fields.]



Select Single if filing Single, Head of Household, Qualifying Widower, or Married Filing Separately and lived apart from spouse all year

Select Jointly if filing Married Filing Joint

If filing Married Filing Separately and lived with spouse at all in the year, it is most likely that 85% of the social security benefits will be taxable. You wouldn't use this calculator and CTC would not prepare this return.

Enter the total of all 1099-SSA box 5 amounts for taxpayer and spouse

Enter all taxable income (e.g. wages, self-employment net profit, interest and dividends, etc.)

Enter any non-taxable income to be reported on the return (e.g. U.S. savings bonds).

Enter any adjustments to income (e.g. IRA deduction, educator expenses, HSA deduction, etc.)

Press Calculate to know how much of the social security benefits will be taxable. You then **add that amount to the total taxable income you entered earlier** to know whether the client is over our income eligibility limit.

What is social security, survivor's benefits, SSDI, and SSI? What needs to be reported on a tax return?

The term "social security benefits" or "social security" in IRS publications includes retirement, survivor's benefits, and disability benefits paid through the Social Security Administration. All of these benefits are based on earnings and social security taxes paid during the years worked. These amounts are reported on Form SSA-1099. The client may or may not have brought this form with them.

- **Social Security Retirement.** Based on earnings during the years worked and paid into Social Security. This is the social security most people think of. It is reported on Form SSA-1099.
- **Survivor's Benefits** for the surviving spouse or child of a deceased individual. Amounts are reported on Form SSA-1099.
- **Social Security Disability Insurance (SSDI).** Like Social Security Retirement, the amount of SSDI is based on the earnings during the years worked and paid into Social Security. And like Social Security Retirement, benefits are reported to the client on Form SSA-1099.

  SSDI Benefits are available for:
  - Disabled workers under full retirement age. (Benefit based on the worker's earnings.)
  - Individuals disabled since childhood, whose parents are either deceased or receiving retirement or disability benefits. (Benefit is based on parent's earnings.)
  - Disabled widow(er)s, age 50-60, if the deceased spouse was insured under Social Security. (Benefit based on the spouse's earnings.)

NOTE: The term "social security benefits" or "social security" in IRS publications does ***not*** include SSI.

What is Supplemental Security Income (SSI)?

- In addition to the above "Social Security Benefits", the Social Security Administration also administers SSI payments for financially needy adults who are aged, blind, or disabled and financial needy children who are blind or disabled.
- This income is not taxable because it is based on financial need.
- The client will not receive a tax form reporting this income. Some clients will bring a statement sent to them by SSA showing their monthly payment amount.
- Because these amounts are paid by SSA, the client may tell you that they received Social Security, and that it is because they are disabled. You may have to ask additional questions to determine if they are receiving SSI or one of the Social Security benefits mentioned above. Sometimes the client may receive SSI in addition to SSDI or Social Security Retirement. One way to determine this is to ask whether they receive two separate direct deposits from Social Security each month.

What is the definition of totally and permanently disabled?

The IRS considers a person to be "totally and permanently disabled" if he or she ***cannot work because of a physical or mental condition***. A qualified physician must certify that:

- The condition has lasted or can be expected to last continuously for at least 12 months; OR

- That the condition can be expected to result in death.

- **If SSA determines a person to be disabled, are they considered disabled by the IRS?**

Yes. If the Social Security Administration determined someone to be disabled, assume they meet the IRS test for disability. However, <u>not</u> having SSI, SSDI, or Medicare does <u>not</u> mean that the person is not disabled. It can take months or years after the onset of disability for payments to begin.

- **Implications of Social Security and Disability Payments on Dependency & Filing Status**

IMPLICATIONS OF SOCIAL SECURITY PAYMENTS AND DISABILITY PAYMENTS *Note: This is not a complete list! Use the IRS materials for more information.*		
	TAXPAYER (or spouse) with disability	**DEPENDENT** with disability (or social security income)
FILING STATUS (HEAD OF HOUSEHOLD AND QUALIFYING WIDOW(ER))	For head of household and qualifying widow(er), **the cost of keeping up the home INCLUDES SSI payments and other public assistance payments** such as TANF and SNAP (food stamps). These amounts MUST be included in the <u>total cost of keeping up the home</u> to figure if the taxpayer paid more than half the cost. SSI and public assistance are considered to be paid by a third party, not by the taxpayer or qualifying person. Social Security Retirement, Disability and Survivor benefits received by the taxpayer are considered to be paid by the taxpayer. [Payments for the qualifying person received in the taxpayer's name are considered provided by the qualifying person, not by the taxpayer.]	For head of household and qualifying widow(er), **the cost of keeping up the home INCLUDES SSI payments and other public assistance payments** such as TANF and SNAP (food stamps). These amounts MUST be included in the <u>total cost of keeping up the home</u> to figure if the taxpayer paid more than half the cost. These amounts are not considered paid by the taxpayer. SSI and public assistance are considered to be paid by a third party, not by the taxpayer or qualifying person. Social security retirement, disability and survivor benefits and other amounts received by the qualifying person are not considered to be paid by the taxpayer.
DEPENDENCY	In the **Support Test** to determine whether a person is a qualifying	**Note**: A totally and permanently disabled

	child or qualifying relative: ▪ <u>Total support</u> includes all Social Security benefits (Retirement, Disability, and Survivors) and SSI. ▪ Support provided by the taxpayer includes all Social Security benefits (Retirement, Disability, and Survivors) *received by the taxpayer*. Social Security benefits (Retirement, Disability, and Survivors) *received by the potential dependent* (even if it is received in care of someone else) are considered provided by the potential dependent. SSI benefits are considered to be provided by the state, not by the taxpayer, or the potential dependent.	individual may be a qualifying child ***regardless of age***. In the **Gross Income Test** to determine whether a person is a qualifying relative (test not applicable to Qualifying Child): ▪ Social Security Retirement, Survivors and Disability benefits are only considered part of gross income ***to the extent they are taxable***. ▪ SSI is <u>not</u> considered part of Gross Income. ▪ Income from a sheltered workshop is excluded if the availability of medical care is the main reason for the individual's presence there. In the **Support Test** to determine whether a person is a qualifying child or qualifying relative: <u>Total support</u> includes all social security benefits, SSI, and sheltered workshop. <u>Support provided by the dependent</u> includes Social Security Retirement, Survivors or Disability benefits received by the potential dependent (even if the benefits are received in care of someone else), and sheltered workshop. Does not include SSI benefits which are considered to be provided by the state, not by the taxpayer.

➢ Lump Sum Payments

You must include the taxable part of a lump-sum (retroactive) payment of benefits received during the year in your income for that year, even if the payment includes benefits for an earlier year.

When the SSA-1099 reflects a lump sum payment, Box 3 will include a notation for the amount paid for each tax year (if the payment is for more than just the current tax year). **It is not necessary to file amended returns for the prior years for which benefits are paid.**

There are two methods for calculating the taxable portion of these lump sum payments:

- One method is simply to enter the full lump sum as you normally would.
- The second method is to separately calculate how much of the lump sum payment attributable to each tax year would be taxable in that prior year.

By utilizing the Lump Sum Payments worksheet, TaxSlayer correctly calculates the taxable amount of benefits received for each year and the income tax, if any, owed for those years. This minimizes the amount of income tax the client must pay in the current tax year. As mentioned earlier, using the lump sum worksheets also eliminates any need to amend the prior year returns.

In order to consider both options and calculate the most favorable outcome for the client, **we must see a copy of the tax return for each prior year for which benefits were received.** (Check Box 3 on the SSA-1099 to know which prior year tax returns we'll need to see.) If the taxpayer cannot produce a copy of the tax return for each prior year, the taxable amount of social security will be based solely on the taxpayer's earnings for the current tax year in which the benefits were received.

Refer to page D-42 (included next in this document) in Pub 4012 for instructions on entering the lump sum distribution in TaxSlayer.

This type of lump-sum benefit payment should not be confused with the lump-sum death benefit that both the SSA and RRB pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.

Some background on lump sum payments:

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, sometimes be examined by SSA-referred physicians, and go through several administrative appeal processes, all of which may take several years to complete. When it is determined that an applicant is in fact disabled, the Social Security Administration establishes an "onset date" -- the date on which the applicant became permanently disabled. SSDI benefits are paid retroactively to the onset date. This means that in the year in which the applicant receives a favorable decision, they receive a check which pays them all benefits to which they were entitled while going through the application process. The check may pay them for several years of disability benefits; they receive a lump sum payment.

- **What fields on the SSA-1099 do I enter in TaxSlayer?**

Refer to page D-41 from Pub 4012 to know which entries to make in TaxSlayer for a Form SSA-1099. (It is also included in this document.)

- **Canadian or German social security benefits paid to U.S. residents**

Foreign social security from Canada or Germany that is treated as U.S. Social Security is **out of scope for VITA.** (For more info, see Pub 4012 Scope of Service.)

- **SSA-1099 box 5 is a negative amount (i.e. in parentheses)**

In some cases, your Form SSA-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received. If this occurred, your net benefits in box 5 will be a negative figure (a figure in parentheses) and none of your benefits will be taxable. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year.

You may be able to deduct part of this negative figure that represents benefits you included in gross income in an earlier year, if the figure is more than $3,000. If the figure is $3,000 or less, it is a miscellaneous itemized deduction and can no longer be deducted. See page 15 of Pub 915 for more information.