Working In Retirement? Some of Your Social Security Benefits May Be Taxed

For most seniors, one of their retirement benefits is receiving income from Social Security. Of course, many feel they would have a hard time living on Social Security benefits alone. It's been widely documented that many Americans have not saved enough to fund their retirement. So, for many, continuing to work is part of their retirement plan. Income from ongoing work, added to personal savings, qualified plan retirement benefits, and Social Security benefits, help meet retirement income needs.

All well-and-good, but there may be a slight problem. Social Security recipients tend to count on their benefits being tax-free. Working in retirement can change that – perhaps substantially. Once *non*-Social Security income reaches a threshold, Social Security benefits are taxed. What is the threshold amount? Add one-half of your Social Security income benefits to all your other income. Then compare your modified adjusted gross income to the (2006) base amounts:

- $32,000 for married couples filing jointly
- $25,000 for single, head of household, qualifying widow/widower with a dependent child, or married individuals filing separately who did not live with their spouses at any time during the year
- $0 for married persons filing separately who lived together during the year

Social Security income above the base amount will likely be taxable. Now, the question is – how much? Generally, up to 50 percent of the Social Security benefits will be taxable. However, if your income reaches a second threshold, the percentage moves up to 85 percent if, in simplified form:

- The total of one-half of your benefits plus all your other income is more than $34,000 or $44,000 if you are married, filing jointly
- You are married, filing separately, and lived with your spouse at any time during 2006.

Two points of clarification: first, there is no age threshold where benefits are no longer potentially taxable; second, none of this means that you will be taxed at either a 50 percent or an 85 percent rate. Rather, up to 85 percent of your benefits may be taxable. The rate you pay is your normal tax rate (not 85 percent).

You probably don't want up to 85 percent of your Social Security benefits to be taxable, so what can you do? One obvious conclusion is to limit non-Social Security income. This may mean cutting back on earned income. However, you may also be able to adjust income levels by lowering unearned income amounts -- for example, money from investments. Timing is (almost) everything.

Of course, if your income needs are great enough, paying income taxes on Social Security benefits may be more than offset by earnings from a good job. So, even though few people revel in the idea of paying more income taxes, doing so may be the best choice – if it means earning enough to have a more pleasant retirement.

For more information:

- www.aarp.org. Enter the key words: taxing, social security, benefits, to display a list of resources. Click on: Online Tax Assistance Frequently Asked Questions.
- www.irs.gov/pub/irs-pdf/p915.pdf. IRS publication 915 explains when Social Security benefits are taxed and how to report them.
- www.socialsecurity.gov/planners/taxes.htm. To obtain IRS Form W-4V in order to request that federal taxes be withheld from your Social Security when you apply for benefits, or to change or stop your withholding.

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