Money Matters

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Skloff Financial Group Question of the Month

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Q: I read the articles 'What Is the Best Age to Claim Social Security Benefits?' Part 1, Part 2, 'What Is the Best Age to Claim Spousal Social Security Benefits?', 'What Is the Best Age to Claim Survivor Social Security Benefits?' Part 1, Part 2, 'How the Government Pension Offset (GPO) Affects Social Security Benefits' and 'How the Windfall Elimination Provision (WEP) Affects Social Security Benefits'. Are Social Security Benefits Taxed?

The Problem – Tax, Taxes and More Taxes
Even though the Social Security Administration (SSA) taxes you throughout your career, you may be subject to federal and state income taxes on your Social Security benefits.

The Solution – No Taxes, No Taxes, Unless…
Federal Income Taxes. Your benefits are taxed only if you have other substantial income in addition to your benefits (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return). You will pay tax on only 85% your benefits, based on Internal Revenue Service (IRS) rules. If you:

- file an **individual** federal tax return and your combined income (i.e.: taxable income, nontaxable interest plus 50% of benefits) is: between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits; if more, up to 85% may be taxable.
- file a **joint return**, and you and your spouse have a combined income is: between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits; if more, up to 85% may be taxable.

If you're married and file a joint return, you must combine your incomes when figuring the taxable portion of your benefits. Even if your spouse didn't receive benefits, you must add your spouse's income when figuring on a joint return if any of your benefits are taxable.

State Income Taxes. There are 12 states that may also assess income taxes on your Social Security benefits. Their arcane rules follow.
Colorado. If you are under age 65, up to $20,000 of benefits can be excluded, while amounts over $20,000 are subject to state income tax if it is subject to federal income taxes. If age 65 and over, federally taxed benefits are deductible in Colorado.
Connecticut. Benefits are not subject to taxes for single taxpayers with federal adjusted gross income (AGI) of less than $75,000, and for married taxpayers filing jointly with federal AGI of less than $100,000. Taxpayers who exceed these levels can deduct 75% of their federally taxable Social Security benefits on their Connecticut tax return.
Kansas. Benefits are exempt from Kansas income tax for residents with a federal AGI of $75,000 or less. Taxpayers with a federal AGI above $75,000 are taxed by Kansas to the same extent they are taxed at the federal level.
Minnesota. Benefits are taxable in Minnesota. In 2021 a married couple filing a joint return can deduct up to $5,290 of their federally taxable benefits from their state income. The 2021 deduction is capped at $4,130 for single filers. The deduction is phased out for married couples with $80,270 to $106,720 of provisional income. The phase-out range for single and head of household filers is $62,710 to $83,360. The deduction and phase-out amounts for 2022 are unavailable.
Missouri. Benefits are not taxed for married couples with a federal AGI less than $100,000 and single taxpayers with an AGI of less than $85,000. Taxpayers who exceed those income limits may qualify for a partial exemption on their benefits.
Montana. Benefits are taxable. The calculation for Montana is like the federal calculation.
Nebraska. Benefits are taxable in Nebraska. For 2021, benefits are not taxed for joint filers with a federal AGI of $59,960 or less and other taxpayers with a federal AGI of $44,460 or less. The cutoffs for 2022 are unavailable.
New Mexico. Benefits are not tax by the state for single filers with an AGI of $100,000 or less, joint filers and head-of-household filers with an AGI of $150,000 or less, and married people filing separate returns with an AGI of $75,000 or less.
Rhode Island. For 2021, benefits are not taxed for joint filers with a federal AGI of $111,200 or less, single and head-of-household filers with federal AGI of $88,950 or less, and married taxpayers filing a separate return with a federal AGI of $88,975 or less. Income in excess is taxed by Rhode Island to the same extent they are taxed at the federal level. The cutoffs for 2022 are unavailable.
Utah. Benefits are included in Utah taxable income to the same extent they're taxed at the federal level. There is a nonrefundable tax credit is available for benefits based on the state income tax rate times the amount of benefits included in federal AGI. Taxpayers can't claim both the Social Security credit and the general $450 credit for retirees.
Vermont. Benefits are not taxed for joint filers with a federal adjusted gross income of $65,000 or less and other taxpayers with a federal AGI of $50,000 or less. Taxpayers who exceed those income limits may qualify for a partial exemption on their benefits.
West Virginia. Benefits taxed by the federal government are excluded from taxable income for single taxpayers with federal AGI of $50,000 or less and for joint filers with federal AGI of $100,000 or less. (Source: Kiplinger)

Action Steps – Time Your Income to Avoid Unnecessary Federal and State Income Taxes on Your Social Security Benefits
Work closely with your Registered Investment Adviser (RIA) to optimize your taxes on Social Security benefits.

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