

Capstone Comments

A forum for communicating information about the management of assets



Are my Social Security Benefits taxable?

There are basically two kinds of taxation on your Social Security benefits.

Federal Income tax is applicable if your “combined income” reaches a certain threshold. Then 50% to 85% of your Social Security benefit is taxable.

Combined Income is defined as:

$$\begin{array}{r} \text{Adjusted Gross Income} \\ + \text{Non-taxable Interest} \\ + \frac{1}{2} \text{ of your Social Security Benefits} \\ \hline \text{Your “Combined Income”} \end{array}$$

- If you file a federal tax return as an individual and your “combined income” is
 - Between \$25,000 and \$34,000, you may have to pay income tax on 50% of your benefits.
 - More than \$34,000, up to 85% of your benefits may be taxable.
- If you file a federal tax return as a joint return and you and your spouse have a “combined income” that is
 - Between \$32,000 and \$44,000, you may have to pay income tax on 50% of your benefits.
 - More than \$44,000, up to 85% of your benefits may be taxable.
- If you are married and file a separate tax return, you probably will pay taxes on your benefits.

If you begin receiving Social Security benefits prior to full retirement age (FRA) and are still employed, you may be subject to a reduction of benefits.

- If you are less than full retirement age and your income is in excess of \$14,640; then your Social Security benefit will be reduced by \$1 for every \$2 earned over \$14,640.
- In the year you reach full retirement age, your Social Security benefit will be reduced by \$1 for every \$3 earned over \$38,880 from January 1 to the month before your birthday.
- After attaining full retirement age, there is no limit on earned income.

Your accountant is the best resource to help you determine if these taxations will affect your benefits. We also recommend Social Security’s website at www.ssa.gov.

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If you have questions that you think would be interesting for our readers, please call Kerrie at 406-325-1500 or email your questions to kkern@capstoneretire.com.