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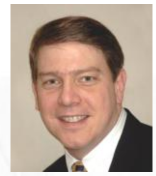

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Your Social Security Benefits & Your Provisional Income

Earning too much may cause portions of your retirement benefits to be taxed.

You may be shocked to learn that part of your Social Security income could be taxed. If your provisional income exceeds a certain level, that will happen.

Just what is "provisional income"? The Social Security Administration defines it with a formula. Provisional income = your modified adjusted gross income + 50% of your total annual Social Security benefits + 100% of tax-exempt interest that your investments generate.[1]

Income from working, pension income, withdrawals of money from IRAs and other types of retirement plans, and interest earned by certain kinds of fixed-income investment vehicles all figure into this formula.

If you fail to manage your provisional income in retirement, it may top the threshold at which Social Security benefits become taxable. This could drastically affect the amount of spending power you have, and it could force you to withdraw more money than you expect in order to cover taxes.

When asked how they felt about their Social Security benefits being taxed; Ninety-one percent of retirees felt the practice should end.[2]

Where is the provisional income threshold set? The answer to that question depends on your filing status.

If you file your federal income taxes as an individual, then up to 50% of your annual Social Security benefits are subject to taxation once your provisional income surpasses $25,000. Once it exceeds $34,000, as much as 85% of your benefits are exposed to taxation.[1,2]

The thresholds are set higher for joint filers. If you file jointly, as much as 50% of your Social Security benefits may be taxed when your provisional income rises above $32,000. Above $44,000, up to 85% of your Social Security benefits become taxable.[2]

The provisional income thresholds have never been adjusted for inflation. Since Social Security needs more money flowing into its coffers rather than less, it is doubtful they will be reset anytime in the future.

When the thresholds were put into place in 1983, just 10% of Social Security recipients had their retirement benefits taxed. By 2015, that had climbed to more than 50%.[2]

In 2017, the Seniors Center, a nonprofit senior advocacy organization based in Washington, D.C., asked retirees how they felt about their Social Security benefits being taxed. Ninety-one percent felt the practice should end.[2]

How can you plan to avoid hitting the provisional income thresholds? First, be wary of potential jumps in income, such as the kind that might result from selling a lot of stock, converting a traditional IRA to a Roth IRA, or taking a large lump-sum payout from a retirement account. Second, you could plan to reduce or shelter the amount of income that your investments return. Three, you could try to accelerate income into one tax year or push it off into another tax year.

Consult with a tax professional to explore strategies that might help you reduce your provisional income. You may have more options for doing so than you think.

Best Regards,

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Citations.

1 - kiplinger.com/article/retirement/T051-C032-S014-can-you-cut-taxes-you-pay-on-your-social-security.html [9/13/17]
2 - fool.com/retirement/2017/03/26/91-of-seniors-believe-this-social-security-practic.aspx [3/26/17]

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