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Social Security Benefits and Income Tax

If you receive Social Security benefits and Insurance policy benefits, you have to pay taxes on them. But there is a caveat to this. If your benefit is above a certain base amount, then the benefit becomes taxable. The base amount includes all forms of income that are received and may be calculated by filling out the IRS' Social Security and Equivalent Railroad Retirement Benefits Form 915.

The following are the base amounts according to various categories of persons:

1. If you are single, the head of a household, or a qualifying widow or widower with a dependent child, your base amount is \$25,000.
2. If you are married but filing your taxes separately from your spouse and did not live with your spouse at any time during the tax year, your base amount is \$25,000.
3. If you are married and filing your taxes jointly with your spouse, your base amount is \$32,000.
4. If you are married but filing your taxes separately and lived with your spouse at any time during the tax year, your base amount is \$0. That

means you have to pay taxes on your entire income.

Any amount above the base amounts as above will be taxable. Generally, up to 50% of your disability benefit is taxable depending on how much was actually earned in 2010. But up to 85% of benefits may be taxable if you fall under either of these two categories:

1. All your earnings plus half of your benefits total more than \$34,000 or \$44,000 if you are married and making joint tax filings.
2. You are married but filing your taxes separately and lived with your spouse at any time during the tax year.

But what about your repayments to private Insurance carriers?

If you used SSA lump sum payments to repay private disability payments from an insurance company or from your employer up to \$3,000 then you are eligible to make itemized deductions. If it was over \$3,000, a tax credit may be claimed instead.

Besides that, you may be able to claim deductions for certain legal expenses like expenses connected to the determination, collection, or refund of any tax, and in certain other tax-related circumstances.