

## SOCIAL SECURITY BENEFIT TAX INFORMATION

Social Security benefits and taxes are commingled in a few ways. There are two main issues that each taxpayer should familiarize themselves with when considering their options.

1. Full Retirement Age: Full Retirement Age is important for the following two reasons

- a. At full retirement age you will receive 100% of your Social Security benefits. Delaying your benefits after reaching full retirement age will result in your benefits increasing by 8% for each year you delayed (up to age 70). Prior to your full retirement age, you will receive a reduced percentage of your normal benefit. The earlier you claim, the smaller percentage you will receive. You can play with the numbers by visiting:

<https://www.ssa.gov/benefits/retirement/planner/ageincrease.html>

Choose your birth year in the drop down menu next to the words “If you were born in:” and click the button for “Your full retirement age is.” You will be provided your full retirement age at the top (in gray) and a table that shows the percentage of your normal benefits that you would receive if you began taking your benefits before full retirement age (based on your age when you begin taking benefits).

- b. Your benefits will be reduced in the following year if you receive Social Security benefits before full retirement age and have earned income that exceeds that year's earned income limit. Earned income includes wages and business income for businesses you are actively participating in. All other income (like interest, dividends, capital gains, income earned by a spouse, etc.) is considered unearned and can be ignored for this purpose. For tax year 2026, the earned income limit for Social Security recipients below full retirement age is \$24,480. Anyone under their full retirement age that receives Social Security benefits and has earned income above this limit will have their Social Security benefits for the next year reduced by 50% of the excess earned income.

2. Tax on Social Security benefits: Each year we have to determine the taxable portion of Social Security benefits you received. The taxable portion depends on your “combined income” (includes income of both spouses). Combined income is calculated as follows:

\*Your adjusted gross income from all other sources  
+ Nontaxable interest (tax-exempt bonds, etc.)  
+ 50% of your Social Security benefits  
= Your “combined income” for that tax year

- a. For tax year 2025 married couples filing jointly with “combined income” less than \$32,000 don't pay tax on their Social Security benefits (\$25,000 for single taxpayers). Couples with “combined income” between \$32,000 and \$44,000 (between \$25,000 and \$34,000 for single taxpayers) have to include up to 50% of

their benefits as taxable income when filing their returns. Couples with “combined income” above \$44,000 (\$34,000 for single taxpayers) have to include up to 85% of their benefits as taxable income when filing their returns.

- b. Additional taxable income can cause more than one change to your tax returns. First, your ordinary income tax increases. Second, if you itemize, your medical expenses will be less helpful since you must exceed 7.5% of your income before your medical expenses can be deducted. Third, if you received Advanced Premium Tax Credit (subsidies paid by the government towards health insurance you purchased through the Healthcare.gov marketplace), you may have to pay back a larger portion of the subsidy when you file your returns, etc.

While waiting to claim Social Security benefits can seem advantageous, it is important to consider your life expectancy, specific financial needs, and the potential for the above rules to change with tax reforms passed by Congress.

We can't determine the best time for you to begin claiming your Social Security benefits, since we can't predict your life expectancy. However, we would be happy to answer any questions about the above information and discuss your situation in greater detail. Please contact the office to schedule a time to meet with your preparer if you have questions for us.