



January 12, 2002

Vol. 1, No. 11

We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – <http://www.taxlogic.com>.

Social Security Benefits or Railroad Retirement Board Pensions

Many taxpayers were very confused when they heard that IRS would let anyone over 65 earn as much as they wanted and it would not be taxable. What they were saying was that after you turned 65 and were still working, there was no earned income ceiling for social security benefits for those over 65. Before this act was passed, after you earned, say over \$12,000, the recipient lost \$1 of social security benefits for each \$2's earned. For those collecting Social Security Benefits and have not reached the age of 65, your earned income ceiling for 2001 is \$10,680.

If the only income you received during 2001 was your social security or the SSEB portion of tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return. However, if you have other income and it reaches a certain level you might have to pay income on your benefits. If the total of your other income plus one-half of your social security benefits is over your base amount, part of your benefits may be taxable.

Your base amount is as follows:

- \$25,000 if you are single, head of household, or qualifying widow(er).
- \$25,000 if you are married filing separated and lived apart from your spouse **for all of 2001**.
- \$32,000 if you are married filing jointly, or
- \$ -0- if you are married filing separately and lived with your spouse at any time, during 2001.

Example. You and your spouse (both over 65) are filing a joint return for 2001, and you both received social security benefits during the year. In January 2002, you received a Form SSA-1099 showing net benefits of \$6,600 in box 5. Your spouse received a Form SSA-1099 showing net benefits of \$2,400 in box 5. You also received a taxable pension of \$17,000 and interest income of \$500. You did not have any tax-exempt interest income. Your benefits are not taxable for 2001, because your income, as figured in the following worksheet, is not more than your base amount (\$32,000) for married filing jointly. Even though none of your benefits are taxable you must file a return for 2001, because your taxable gross income (\$17,500) exceeds the minimum filing requirement amount for your filing status.

A. Write in the amount from Box 5 of all your Forms SSA-1099 and RRB-1099.	\$ 9,000
B. Enter one-half of the amount of line A.	4,500
C. Add your taxable pensions, wages interest, dividends, and other taxable income and write in the total.	17,500
D. Write in any tax-exempt interest income, plus any exclusions from income.	0
E. Add line B, C, and D and write in the total.	\$ 22,000

If the amount of line E equals or is less than the base amount for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your base amount, some of your benefits may be taxable. If so, there is another worksheet that has to be completed. For more information contact us at <http://www.taxlogic.com>.

The person who has the legal right to receive the benefits must determine whether the benefits are taxable. For example, if you and your child receive benefits, but the check for your child is made out in your name you must use only your part of the benefits to see whether any benefits are taxable to you. One-half of the part that belongs to your child must be added to your child's other income to see whether any of those benefits are taxable to your child.

You can choose to have federal income tax withheld from your social security benefits and/or SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this you must complete a Form W-4V. You can choose withholding at 7%, 10%, 15%, or 27% of your total benefit payment.

For additional information on your social security and equivalent railroad retirement benefits, please visit us at <http://www.taxlogic.com>.