

How to Minimize Social Security Taxes

Your Social Security benefit may be taxable. Try these strategies to reduce your tax bill in retirement.

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Retirees with incomes that top \$34,000 (\$44,000 for couples) pay income tax on up to 85% of their Social Security benefit. (GETTY IMAGES)

Most workers pay into the Social Security program throughout their career. Many people also pay taxes on part of their Social Security payments in retirement.

Is Social Security Income Taxable?

Retirees with low incomes or whose only source of income is Social Security generally don't pay income tax on their [Social Security benefit](#). The average

Social Security payment to retired workers was \$1,547 in January 2021, or \$18,564 for the year, which is considerably below the taxable threshold of \$25,000 for an individual. However, some 40% of Social Security beneficiaries have to pay federal income tax on part of their benefit, according to the Social Security Administration. The income cutoffs for [Social Security taxes](#) are not adjusted for inflation each year, so more retirees will need to pay tax on their Social Security payments over time.

Here's how to reduce or avoid taxes on your Social Security benefit:

- Stay below the taxable thresholds.
- Manage your other retirement income sources.
- Consider taking IRA withdrawals before signing up for Social Security.
- Save in a Roth IRA.
- Factor in state taxes.
- Set up Social Security tax withholding.

There are a variety of factors that determine whether your Social Security benefit will be taxed in retirement. Consider each of these strategies to minimize taxes on your Social Security payments.

Stay Below the Taxable Thresholds

Social Security benefits become taxable if the sum of your adjusted gross income, nontaxable interest and half of your Social Security benefit exceeds \$25,000 as an individual and \$32,000 as a married couple. If these income sources are between \$25,000 and \$34,000 (\$32,000 and \$44,000 for couples), income tax will be due on half of your Social Security benefit. Retirees with incomes that top \$34,000 (\$44,000 for couples) pay income tax on up to 85% of their Social Security benefit.

However, you will not have to pay tax on your entire Social Security benefit, regardless of your income. "Many retirees are surprised to find that they have to pay taxes on up to 85% of the Social Security benefits they receive," says Dana Anspach, a certified financial planner and CEO of Sensible Money in Scottsdale, Arizona. "The good news is, no matter what, 15% of the Social Security benefits you receive are tax-free."

Manage Your Other Retirement Income Sources

Retirees who have income from another source in addition to Social Security frequently have to pay tax on part of their Social Security benefit. Pension payments, dividends and interest from savings and investments, earnings from a part-time job and withdrawals from traditional 401(k)s and IRAs are sources of retirement income that can contribute to making your Social Security payments taxable.

Consider Taking IRA Withdrawals Before Signing Up for Social Security

You have some control over when to take withdrawals from retirement accounts during your 60s, because you can begin taking [penalty-free distributions](#) after age 59 1/2 (and in some cases [age 55](#)), but you aren't required to take minimum withdrawals until after age 72. You might be able to reduce your Social Security income tax bill if you withdraw money from your traditional 401(k) or IRA in the years before you sign up for Social Security.

"For many retirees, changing the order they tap their savings to generate income can minimize taxes on Social Security," says William Meyer, founder and managing principal of Social Security Solutions, a company that analyzes Social Security claiming strategies. "Many middle-income retirees should consider withdrawing their IRA account first before starting Social Security. This reduces their IRA account balance by the time required minimum distributions start, and many times the amount of Social Security taxes that typically increase as retirees withdraw more IRA money at the age of 70 and beyond."

Some retirees take a large retirement account distribution in the year before signing up for Social Security, while others take IRA distributions for several years in order to delay claiming Social Security and qualify for higher Social Security payments in the future.

"Managing or controlling your income for a particular year means timing withdrawals other than required minimum distributions such that the income for the year is stacked in one year, with the following or preceding year having a lower amount of distribution income," says Jim Blankenship, a certified financial planner and founder of Blankenship Financial Planning in New Berlin, Illinois.

After age 70 1/2, you might be able to avoid paying income tax on your IRA required minimum distribution if you donate it directly to a qualifying charity. "RMDs could be eliminated or partly eliminated from the tax return by use of

qualified charitable distributions," Blankenship says. When you [donate a required distribution to charity](#), it is not counted as income and does not contribute to the taxation of your Social Security payments.

Save in a Roth IRA

Distributions from Roth 401(k)s and [Roth IRAs](#) after age 59 1/2 from an account that's at least five years old are not taxable and don't contribute to the taxation of your Social Security benefits. Saving for retirement in an after-tax Roth account sets you up for tax-free withdrawals in retirement, and also allows you to minimize taxes on your Social Security payments.

"Money that comes out of Roth IRA accounts does not count in the formula that determines how much of your Social Security is subject to taxation," Anspach says. "By the time you begin Social Security, if you have more money in Roth IRAs and less money in tax-deferred accounts, you will have more flexibility in when you draw money out of what type of account. With planning, you can draw money out in a way that reduces your tax liability over the course of your retirement years."

Factor in State Taxes

Where you live can play a role in whether your Social Security payments will be taxed. Most states don't tax Social Security income. However, 13 states tax Social Security income, often with exceptions for low-income retirees, according to data from information services company Wolters Kluwer. The states that tax Social Security income include Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia.

Set Up Social Security Tax Withholding

Those who owe taxes on their Social Security payments can elect to make quarterly estimated tax payments to the IRS or have federal taxes withheld from monthly payments. You can have 7%, 10%, 12% or 22% of your monthly benefit withheld for taxes, but you cannot select a different percentage or a flat dollar amount. Setting up tax withholding is generally more convenient than having to pay a tax bill every quarter.

By Emily Brandon

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March 8, 2021, at 10:05 a.m.

Updated on March 8, 2021: This story was published at an earlier date and has been updated with new information.