

ST14-03 Lump Sum Social Security Payments

General Information

- Use this process if the taxpayer received lump sum social security benefits for previous years
- From SSA-1099A, Box 3
- Not as difficult as it appears in TaxWise
- Complete after all income is entered
- Must have copies of prior year's returns
- If Taxpayer's total SS or RR Benefit is not taxable, STOP HERE

1099-SSA with Lump Sum

- Total from Box 5 = \$33,996 Enter in Wkt1 "Social Security Received this year" and **note refund/owed** amount in Refund Monitor
- Amount for 2012 paid in 2014 = \$12,948 from the 1099-SSA box 3
- Amount for 2013 paid in 2014 = \$5,190 from the 1099-SSA box 3
- Therefore, the amount for 2014 would be \$15,858 (determined by subtracting the 2012 and 2013 amounts from the amount in box 5.)

<p style="text-align: center; font-size: small;">DESCRIPTION OF AMOUNT IN BOX 3</p> <p>Paid by check or direct deposit: \$ 30906.00</p> <p>Attorney Fees \$3090.00</p> <p>Total: \$33,996.00</p> <p>*Includes \$12,948.00 Paid in 2014 for 2012 \$ 5,190.00 Paid in 2014 for 2013</p>	<p style="text-align: center; font-size: small;">DESCRIPTION OF AMOUNT IN BOX 4</p> <hr/> <p style="font-size: x-small;">Box 6. Voluntary Federal Income Tax Withholding</p> <hr/> <p style="font-size: x-small;">Box 7. Address</p> <p>1734 Hillsdale Circle Your City, State, & Zip Code</p> <hr/> <p style="font-size: x-small;">Box 8. Claim Number (Use this number if you need to contact SSA.)</p>
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Form SSA-1099-SS (1-2007) **DO NOT RETURN THIS FORM TO SSA OR IRS**

Start With 1040 Wkt1

- In TaxWise, at the bottom of 1040 Wkt1 you'll see "Lump Sum Payment of Social Security and ..."
- Enter \$15,858 gross amount received attributable to 2014
- If return is a joint return, include "Gross amount received attributed to 2014" for spouse
- Click here and link (F9) to "Worksheet for Lump Sum Social Security or RR Tier 1 Payment"

Lump Sum Payment of Social Security and Railroad Tier 1 Benefits

Fill in the total lump sum received above.

Gross amount received attributable to 2014

Using the above modified AGI, this is the taxable amount of the 2014 benefits

Amounts taxable from previous years

Taxable benefits using the lump-sum election method

Taxpayer	Spouse	Total
15858	0	15858
		13479
	F9 to worksheet	0
		13479

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Completed Worksheet 2012

US 1040 Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment 2014

Name: DON & DANA HO

SSN: 005-03-0752

Enter the earlier year for which benefits were received in 2014

2012

What was the filing status on the earlier year tax return?

- a Married filing jointly.
- b Married filing separately and you lived with your spouse at anytime during the earlier year.
- c Neither a nor b.

Use this worksheet for a year after 1993.

<p>1 Enter the total amount of social security or RR tier 1 received for the earlier year and reported on your tax return(s) for that year Enter the amount of lump-sum payment for the earlier year received this year</p>		3000		
		12948		15948
2 One-half of line 1				7974
3 Enter the adjusted gross income reported on the tax return for the earlier year				60000
4 Enter total exclusions/adjustments claimed in earlier year on Forms 8815, 8839, 2555, or 2555EZ. Also include any student loan interest deduction and certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico				0
5 Enter any tax-exempt interest received in the earlier year				0
6 Add lines 2, 3, 4, and 5				67974
7 Enter taxable benefits reported on the tax return for the earlier year return				2550
8 Subtract line 7 from line 6				65424
9 Based on the filing status listed above - a: \$32,000; b: \$0; c: \$25,000				32000
10 Subtract line 9 from line 8. If -0-, none of the additional payment is taxable				33424
11 Based on the filing status listed above - a: \$12,000; b: \$0; c: \$9,000				12000
12 Subtract line 11 from line 10. If -0- or less, enter -0-				21424
13 Smaller of line 10 or line 11				12000
14 One-half of line 13				6000
15 Smaller of line 2 or line 14				6000
16 Multiply line 12 by 85%				18210
17 Add lines 15 and 16				24210
18 Multiply line 1 by 85%				13558
19 Refigured taxable benefits. Smaller of line 17 or line 18				13558
20 Taxable benefits reported on the earlier year tax return				2550
21 Additional taxable benefits				11008

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Completed Worksheet for 2013

US 1040 Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment 2014

Name: DON & DANA HO

SSN: 005-03-0752

Enter the earlier year for which benefits were received in 2014
 What was the filing status on the earlier year tax return?

2013

- a Married filing jointly.
- b Married filing separately and you lived with your spouse at anytime during the earlier year.
- c Neither a nor b.

Use this worksheet for a year after 1993.

<p>1 Enter the total amount of social security or RR tier 1 received for the earlier year and reported on your tax return(s) for that year Enter the amount of lump-sum payment for the earlier year received this year</p>		7000		
2 One-half of line 1		5190	12190	
3 Enter the adjusted gross income reported on the tax return for the earlier year			6095	
4 Enter total exclusions/adjustments claimed in earlier year on Forms 8815, 8839, 2555, or 2555EZ. Also include any student loan interest deduction and certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico			35000	
5 Enter any tax-exempt interest received in the earlier year			0	
6 Add lines 2, 3, 4, and 5			0	
7 Enter taxable benefits reported on the tax return for the earlier year return			41095	
8 Subtract line 7 from line 6			5995	
9 Based on the filing status listed above - a: \$32,000; b: \$0; c: \$25,000			35100	
10 Subtract line 9 from line 8. If -0-, none of the additional payment is taxable			32000	
11 Based on the filing status listed above - a: \$12,000; b: \$0; c: \$9,000			3100	
12 Subtract line 11 from line 10. If -0- or less, enter -0-			12000	
13 Smaller of line 10 or line 11			0	
14 One-half of line 13			3100	
15 Smaller of line 2 or line 14			1550	
16 Multiply line 12 by 85%			1550	
17 Add lines 15 and 16			0	
18 Multiply line 1 by 85%			1550	
19 Refigured taxable benefits. Smaller of line 17 or line 18			10362	
20 Taxable benefits reported on the earlier year tax return			1550	
21 Additional taxable benefits			5995	
			-4445	

Note the taxable portion of SS or RR after the worksheets are completed.

In this example the taxpayer's refund went from \$243 to \$1,571 using this process.

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Legal Fees

Legal fees are deductible on Schedule A, line 23 (subject to the 2% AGI limitation), if the taxpayer itemizes deductions. Legal fees associated with obtaining the benefits can be deducted to the extent that the benefits are taxable.

In the example above:

Attorney Fees: \$3,090

Gross SS Income: \$33,996

Taxable amount of SS: \$23,925

Deductible attorney fees (Schedule A, line 23): \$2,175 = [$\$3,090 \times \$23,925 / \$33,996$]

NOTE: Since previous returns were not amended, the entire \$23,925 was allocated to the current year.

Disability Insurance Repayment

Social Security Lump Sums are often associated with repayment of private disability insurance. The "repayment" can be handled according to IRC 1341 as a "Claim of Right", in a manner similar to the SS Lump Sum Election. This is "out of scope" and should be referred to a professional preparer.

Tips for Calculating Social Security Lump Sum Payments

- Taxpayer must have copies of previous year return(s)
- Be sure all income is entered before completing this process
- Be sure to enter any SS income received in previous year
- Be sure to check previous return for any tax-exempt interest (Federal 1040 Line 8b) or Student Loan Interest deduction(Federal 1040 Line 33)
- Attorney fees may be deductible
- Refer SS lump sums that include private disability insurance repayment to a Professional Preparer