

# More About Social Security and You

By Bob Arnold of Superior Income Group, LLC

A lot of people don't know that their Social Security Retirement benefits could be taxable. The determining factor for taxation is the amount of "Provisional Income". Now we are going to talk a little bit about the taxation of social security benefits because it is common among advisors to say 85 percent of benefits are going to be taxable. For middle upper income and for the upper income folks 85 percent is often taxable and 15 percent is tax free. But it is based on a formula called the provisional income formula. That formula has thresholds based on whether your single or married.

Your "provisional income" includes 1/2 of your Social Security benefits, plus all other taxable income, including dividends, realized interest, and realized capital gains, plus non-taxable interest earnings, such as from municipal bonds.

For a single person the tax benefit threshold is \$25,000 in provisional income. they are taxed on 50% of their benefit between \$25,000 and \$34,000. If they exceed \$34,000 in Provisional income their taxable benefit is 85% of income over \$34,000. For a married couple the numbers are \$32,000 and \$44,000.

Social Security carries a substantial tax advantage over other forms of



income, so delaying benefits in order to build a larger Social security benefit can have a greater positive tax impact than most people realize. Let's look at two families with identical retirement income. Our first family, who delayed benefits takes \$20,000 out of their IRA and receives a Social Security benefit of \$40,000. They have \$40,000 in provisional income. \$20,000 IRA withdrawal plus 1/2 half of their \$40,000 SS benefit equals \$40,000 provisional income. We take the amount over \$32,000 which is \$8,000 and multiply that by .50 to determine they are taxed on \$4,000 SS benefit. They have a taxable income of \$24,000.

Now let's look at couple B. They have the same \$60,000 income; however, they are taking \$40,000 out of their IRA and only have a \$20,000 benefit. Their provisional income in the example is \$50,000. Once again to determine how much of their SS benefit is taxable we take the provisional income and subtract \$32,000. We then multiply the difference by .5.  $(50,000 - 32,000 = 18,000 \times .5 = \$9,000$  taxable benefit. We then take our \$50,000 less \$44,000 (upper Threshold) and multiply that by .35.  $(50,000 - 44,000 = 6,000 \times .35 = \$2,100$ . We then add the two  $(\$9,000 + \$2,100 = \$11,100)$  This family has a taxable benefit of \$11,100 from SS. They have a taxable income of \$51,100.

WE have done a lot of number crunching to show the difference good planning can make in a retirement plan. Family B is depleting their retirement assets twice as fast as family A. \$40,000 IRA withdrawal as opposed to a \$20,000 IRA withdrawal. The two families also have a major difference in the taxes they owe. Family B's taxes using personal exemptions and the standard deduction in 2015 would be \$3281. Family A's tax bill would be \$91. This would result in a difference of \$3190 which family A could not spend on themselves or their family. Oh wait, they will be spending it on "Uncle Sam". Over a 20 year retirement this would result in over \$63,000 in taxes and that is assuming taxes stay the same. Call us, we can help. (334) 596-1621.

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Ingredients

- 1 large baking potato
- 2 large sweet potatoes
- 4 large carrots
- 1 rutabaga
- 1 large yellow onion
- 4 cloves garlic
- 4 tablespoons freshly grated ginger
- ½ teaspoon cumin
- 1 teaspoon turmeric
- 1 teaspoon curry powder
- ½ teaspoon black pepper
- ½ teaspoon paprika
- 2 quarts chicken or vegetable stock
- Salt to taste

Directions

Dice all vegetables into one inch pieces or less. Make sure they are all uniform in size. Toss all vegetables with spices and ginger in enough olive oil to just coat the vegetables. Salt the vegetables to taste then roast them in a 375 degree oven, in one even layer, for 20 minutes to caramelize the vegetables. Cool vegetables and puree them adding just enough stock to cover. Mix puree and the rest of the stock in a large stockpot and simmer for thirty minutes. This recipe makes three quarts of soup. If the soup gets too thick, you can add water or more stock to achieve your desired consistency. This soup is excellent paired with cheese and crackers.

*March finds us slightly confused in the culinary world. Fresh vegetables are just being planted in the garden and the winter with its heavy meats and sauces doesn't seem quite right for warm spring sunshine. On St. Patrick's Day, orange can be the new green. Treat family and guests to a soup made from root vegetables. The spices offer rich color and vibrancy to vegetables that have taken on a rich caramelization from roasting first in the oven. This could be the winning way to place rutabagas, which are rich in Vitamin C, in front of the finicky eater in your home. Rutabagas are commonly eaten in The British Isles. May the luck of the Irish be with you!*

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