

Social Security and your tax burden | Biz Brain

Updated Dec 12, 8:16 AM;

Posted Dec 12, 8:15 AM



Looking at how a Roth distribution would impact Social Security taxation.(click/morguefile.com)

Comment

0
shares

By **Karin Price Mueller**

NJMoneyHelp.com for NJ.com

Q. If a person will qualify for Social Security, the Roth IRA has the advantage that withdrawals don't pull Social Security payments into taxable income, effectively increasing a person's tax rate. Is that correct? What will raise a person's tax rate with Social Security?

-- Retiring

A. You are correct that qualified distributions from Roth IRAs are not taxable.

Specifically, this means that you are permitted to withdraw your contributions at any time, tax- and penalty-free, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

For this discussion, Aznar is assuming you're older than 59 1/2.

"If that is the case, keep in mind that distributions from a Roth IRA that has been held for less than five years would result in earnings that would be subject to taxes, but not penalties," she said. "If you are over 59 1/2 and have had the Roth IRA for more than five years, you are in a position to withdraw money from a Roth IRA without being subject to income taxes or penalties."

Now that we have that out of the way, let's get to your questions.

When it comes to Social Security taxation, Aznar said, you should keep in mind that your combined income -- which is your adjusted gross income, non-taxable interest and one-half of your total Social Security benefits -- will determine how much of your Social Security benefits are taxable.



"If you file 'single' and your combined income is more than \$34,000, up to 85 percent of your Social Security benefits could be subject to tax," Aznar said. "Under the same scenario, combined income less than \$25,000 would mean that you are not subject to taxes on your Social Security benefits."

If you are "married filing jointly" and your combined income is more than \$44,000, up to 85 percent of your Social Security benefits could be subject to tax, Aznar said. Under the same scenario, combined income of less than \$32,000 would mean that you are not subject to taxes on your Social Security benefits.

Aznar said under current tax law, you will not pay taxes on any more than 85 percent of your benefits regardless of your combined income or filing status.

And one bonus: New Jersey does not tax Social Security benefits.

Email your questions to Ask@NJMoneyHelp.com.