

ST11-03 Lump Sum Social Security Payments

General Information

- From SSA-1099A, Box 3
- Not as difficult as it appears in TaxWise
- Must have copies of prior years 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 2010 = \$12,948
- Amount for 2009 = \$5,190
- Therefore, the amount for 2011 would be \$15,858

<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 style="font-size: x-small;">*Includes \$12,948.00 Paid in 2011 for 2010 \$ 5,190.00 Paid in 2011 for 2009</p>	<p style="text-align: center; font-size: small;">DESCRIPTION OF AMOUNT IN BOX 4</p> <p style="font-size: x-small;">Box 6. Voluntary Federal Income Tax Withholding</p> <p style="font-size: x-small;">Box 7. Address 1734 Hillsdale Circle Your City, State, & Zip Code</p> <p style="font-size: x-small;">Box 8. Claim Number (Use this number if you need to contact SSA.)</p>
Form SSA-1099-SM (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 Payme..."
- Enter \$15,858 gross amount received attributable to 2011
- Click here and link (F9) to worksheet

Lump Sum Payment of Social Security and Railroad Tier 1 Benefits			
Fill in the total lump sum received above.	Taxpayer	Spouse	Total
Gross amount received attributable to 2011	15858	0	15858
Using the above modified AGI, this is the taxable amount of the 2011 benefits			13479
Amounts taxable from previous years		F9 to worksheet	0
Taxable benefits using the lump-sum election method			13479

ST11-03 Lump Sum Social Security Payments

Blank Worksheet

Filing Status from prior year return

US 1040	Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment	2011																																
Name: <u>DON HO</u>		SSN: <u>831-02-0752</u>																																
Enter the earlier year for which benefits were received in 2011																																		
What was the filing status on the earlier year tax return?																																		
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Enter applicable prior year

Amount SS or RR received for the prior year from prior year return

Amount shown on current year 1099-SSA for the year shown above

Adjusted gross income from prior year return

Exclusions and adjustments from prior year return

Tax exempt interest from prior year return

Taxable portion of SS or RR from prior year return

Completed Worksheet 2010

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

Comparison \$28,897 vs \$23,925

If all the lump sum income was entered as 2011 income, the taxable portion of the social security benefit would be \$28,897.

Using the worksheet, the taxable portion of the social security benefit would be \$23,925.

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 x \$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

- Taxpayer must have copies of previous year return(s)
- Be sure to enter any SS income received in previous year
- Be sure to check previous return for any tax-exempt interest (Line 8b)
- Attorney fees may be deductible
- Refer SS lump sums that include private disability insurance repayment to a Professional Preparer