

# ST12-03 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 2011 = \$5,190
- Therefore, the amount for 2012 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><b>Total: \$33,996.00</b></p> <p style="font-size: x-small;">*Includes \$12,948.00 Paid in 2012 for 2010 \$ 5,190.00 Paid in 2012 for 2011</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 style="text-align: center;">1734 Hillsdale Circle Your City, State, &amp; 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-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 Payment of Social Security and ..."
- Enter \$15,858 gross amount received attributable to 2012
- If return is a joint return, include "Gross amount received attributed to 2012" for spouse
- Click here and link (F9) to worksheet

<b>Lump Sum Payment of Social Security and Railroad Tier 1 Benefits</b>			
Fill in the total lump sum received above.	Taxpayer	Spouse	Total
Gross amount received attributable to 2012	15858	0	15858
Using the above modified AGI, this is the taxable amount of the 2012 benefits			13479
Amounts taxable from previous years		F9 to worksheet	0
<b>Taxable benefits using the lump-sum election method</b>			<b>13479</b>

# ST12-03 Lump Sum Social Security Payments

## Blank Worksheet

US 1040 Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment 2012

Name: DON HO SSN: 831-02-0752

Enter the earlier year for which benefits were received in 2011  
 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.

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	0	0
2	One-half of line 1	0	0
3	Enter the adjusted gross income reported on the tax return for the earlier year	0	0
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	0
5	Enter any tax-exempt interest received in the earlier year	0	0
6	Add lines 2, 3, 4, and 5	0	0
7	Enter taxable benefits reported on the tax return for the earlier year return	0	0

Filing Status from prior year return

Enter applicable prior year. Start with earliest 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

US 1040 Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment 2012

Name: DON HO SSN: 831-02-0752

Enter the earlier year for which benefits were received in 2011  
 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.

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	3000	15948
2	One-half of line 1	12948	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

## Completed Worksheet for 2011

US 1040 Worksheet for a Lump-Sum Social Security or RR Tier 1 Payment 2012

Name: DON HO SSN: 831-02-0752

Enter the earlier year for which benefits were received in 2011  
 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.

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	7000	12190
2	One-half of line 1	5190	6095
3	Enter the adjusted gross income reported on the tax return for the earlier year		35000
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		41095
7	Enter taxable benefits reported on the tax return for the earlier year return		5995

# **ST12-03 Lump Sum Social Security Payments**

**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 2012 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 = [ $\$3,090 \times \$23,925 / \$33,996$ ]

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**

- 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