TAXES

Withholding Tax From Your Social Security Benefits

Having taxes withheld from Social Security benefits can help retirees avoid a surprise when tax season arrives.

(Image credit: Getty Images)

Managing your tax liability effectively during retirement is important, especially since up to 85% of Social Security benefits can be taxed depending on your income. So, how can you avoid the surprise of owing the IRS more than you expected when tax season arrives? While not required, choosing to have taxes withheld from your Social Security checks is an option.

Here's what else you need to know.

Taxes on Social Security

It's essential to plan if you know some of your Social Security benefits will be taxed. As a general rule, if Social Security is the only source of income, it might not be taxable. However, the IRS will likely tax some of your Social Security benefits if you have additional retirement income from pensions, another job, retirement account distributions, etc.

The amount of Social Security benefits subject to tax depends on an IRS formula. That formula is based on “combined income” and considers your adjusted gross income, nontaxable interest, and half of your Social Security benefits.

Generally, if your combined income (50% of your benefit plus any other earned income) exceeds $25,000/year filing individually or $32,000/year filing jointly, you may have to pay federal taxes on your benefits.

Federal withholding tax from Social Security

As mentioned, one way to avoid tax surprises is to have federal income taxes withheld from your Social Security payments.

- To do this, complete IRS Form W-4V, Voluntary Withholding Request, and submit it to your local Social Security office.
- You can choose a withholding rate of 7%, 10%, 12%, or 22%.
- You can change or stop withholding by completing and submitting a new W-4V.

Note: Changes in your income, tax laws, and inflation-adjusted amounts such as the Social Security COLA, may necessitate withholding changes. Review your withholding elections periodically to determine the best withholding rate for you.

Estimated tax payments on Social Security income

If you prefer not to have taxes deducted from your monthly Social Security payments, you can make quarterly estimated tax payments to the IRS. That can help you avoid underpayment penalties since the U.S. tax system operates on a "pay-as-you-go" basis. That means the IRS expects you to pay a portion of your income as soon as you earn it.

- When paying estimated taxes, you usually make four equal payments and follow the IRS's yearly schedule.
- People also call estimated tax payments "quarterly" payments, even though the payments might not necessarily be three months apart or cover three months of income.

Regardless of the method you choose, withholding tax from Social Security and making estimated tax payments help ensure you have paid sufficient tax. You want to avoid an underpayment penalty from the IRS when you file your income tax return. According to the IRS, estimated tax underpayment penalties depend on several factors, including the amount of underpayment, the period when the underpayment was due, and the interest rate for underpayments that the agency publishes each quarter.

To avoid underpayment penalties, you will want to either withhold or make estimated payments equal to 90% of your tax liability for the current year or generally 100% of your tax liability for the previous year.

States that tax Social Security in 2024

While federal taxes may apply to Social Security benefits, not all states tax them. It helps to remain aware of state tax laws and state tax changes to understand if Social Security benefits are subject to state income tax. Also, see Kiplinger’s report on states that still tax Social Security.

Taxes in retirement can be complex, especially for retirees with multiple income sources. Staying informed and consulting with a tax professional can provide personalized advice. That guidance might help you make informed decisions regarding your Social Security withholding and overall tax strategy.