

ST15-03 Lump Sum Social Security Payments

General Information

- Use this process if the taxpayer received lump sum social security benefits or RR Benefits Tier 1 for previous years. Do not do an amended return.
- The amounts are shown on Form SSA-1099A, Box 3 (Bottom).
- The process is not as difficult as it appears in TaxWise
- Complete this process after all income is entered.
- You must have copies of prior year's returns.
- If the taxpayer's total SS or RR Benefit is not taxable in the current year, STOP HERE.

What you need to know from previous year's returns

- Filing Status from prior year
- The amount of SS or RR received for the prior year
- Adjusted Gross Income from prior year
- The amount of any exclusions or adjustments from prior year
- Any tax exempt interest from the prior year
- The taxable portion of the SS or RR from the prior year

DESCRIPTION OF AMOUNT IN BOX 3	DESCRIPTION OF AMOUNT IN BOX 4
Paid by check or direct deposit: \$ 30906.00	
Attorney Fees \$3090.00	
Total: \$33,996.00	
	Box 6. Voluntary Federal Income Tax Withholding
	Box 7. Address 1734 Hillsdale Circle Your City, State, & Zip Code
	Box 8. Claim Number (Use this number if you need to contact SSA.)

Amounts from previous years are shown in Box 3 of the SSS-1099

*Includes
\$12,948.00 Paid in 2015 for 2013
\$ 5,190.00 Paid in 2015 for 2014

Form SSA-1099-SM (1-2007) DO NOT RETURN THIS FORM TO SSA OR IRS

References

- IRS Publication 4012 – Page D-27
 - The steps below follow the steps in this document.
- IRS Publication 915

Start With 1040 Wkt1

Step 1

- Enter the Box 5 total from the SSA-1099 for both taxpayer and spouse in 1040 Wkt 1 as normal. Make a note of the refund/owed amount in the TWO refund monitor and on NJ line 56/66.

Step 2

- Calculate the amount received for the current tax year by subtracting the prior years from box 5 benefits.

Step 3

- Enter the amount received for the current tax year for both spouses at the bottom of 1040 Wkt 1.

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Step 4

- Link to the Lump Sum Wkt line “amounts taxable from previous years.

Bottom of 1040 Wkt 1

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 2015 only	0	0	0
Using the above modified AGI, this is the taxable amount of the 2015 benefits			0
Amounts taxable from previous years		F9 to worksheet	0
Taxable benefits using the lump-sum election method			0

Lump Sum Worksheet

Note: Prior year pertains to the year entered on the top of the Worksheet.

Step 5

- Enter pertinent prior year at the top of Lump Sum Worksheet.
- Check the appropriate marital status for that year.

Step 6

- On line 1, box 1 enter the amount of benefits received in the prior year for both spouses from the prior year return (1040 Line 20a).
- On line 1, box 2 enter the amount for the prior year received in the current year (from the 2015 SSA-1099 Box 3 - Bottom).

Step 7

- On line 3, enter the AGI from the prior year.

Step 8

- On line 4 enter adjustments/ exclusions amounts for the prior year. The forms mentioned on this line are out of scope. If one was used in the prior year prepared by others, you would have to include the amounts on line 8. Include any Student Loan Interest Deductions made in the prior year.
- On line 5 enter tax exempt interest for the prior year.

Step 9

- On line 7 enter taxable Social Security Benefits reported on the tax return for the prior year.

Step 10

- Close the worksheet and repeat steps 4-9 for additional prior years.

See a sample lump sum worksheet on the next page.

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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.

Example:

Attorney Fees: \$3,090

Gross SS Income: \$33,996

Taxable amount of SS: \$23,925

Deductible attorney fees (Schedule A, line 23): $[\$3,090 \times \$23,925 / \$33,996] = \$2,175$

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 for Calculating Social Security Lump Sum Payments

- Taxpayer must have copies of previous year return(s).
- Be sure all income is entered before completing this process.
- Be sure to enter any SS income received in previous year.
- Be sure to check previous return for any tax-exempt interest (Federal 1040 Line 8b) or Student Loan Interest deduction (Federal 1040 Line 33).
- Attorney fees may be deductible.
- The above procedure applies to Railroad Retirement Tier 1. If the RRB-1099 Tier 1 form does not show the breakdown of the lump sum payments by year, the taxpayer must contact RRB for the breakdown.
- Refer SS lump sums that include private disability insurance repayment to a Professional Preparer.