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Ask the Hammer: Is Social Security Income Tax-Free?

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Financial adviser Jeffrey Levine explains tax implications for Social Security recipients.

In a recent episode of “Ask the Hammer,” financial expert Jeffrey Levine from Buckingham addressed a common concern among Social Security recipients: the potential need for tax withholding on their benefits. The question came from a reader whose sole income source is Social Security, amounting to between $26,000 and $27,000 annually.

Levine began by clarifying the confusion surrounding the mentioned “$25,000 threshold,” suggesting it might refer to either the standard deduction or the base amount for Social Security taxation. He then provided a reassuring answer: for individuals whose only income is Social Security, and it falls within the $25,000 to $26,000 range, the entire amount is typically tax-free.

Levine elaborated on the “free space” concept in taxation. Even if a person has additional income sources like interest or dividends that push their total income slightly higher, the standard deduction often ensures that they still owe no income tax. This information is particularly relevant for retirees managing their finances and concerned about potential tax liabilities.

Levine emphasized a crucial point: if Social Security is the sole income source and it’s limited to $26,000 or $27,000 annually, the recipient will likely owe $0 in income tax. Consequently, there’s no need for tax withholding from these payments. However, he stressed the importance of verifying individual circumstances, as overlooked income sources or misunderstandings about what counts as taxable income can affect one’s tax situation.

The conversation also touched on the complexity of Social Security rules. Factors such as whether a recipient is below or above full retirement age, and whether they have earned income while collecting Social Security, can significantly impact their tax situation.