Take a Bite Out of Taxes on Social Security Benefits

Investing in a tax-deferred annuity may help reduce taxes on your Social Security benefits.

It doesn't take much to have your Social Security benefits taxed. If you're married, up to 50 percent of your Social Security benefits are subject to taxation if your provisional income is between $32,000 and $44,000 and you file a joint return. If your provisional income exceeds $44,000, up to 85 percent of your benefits can be taxed. For single filers, the 50 percent level is $25,000 to $34,000 and the 85 percent level kicks in over $34,000.*

Moving money from a TAX-EXEMPT or taxable investment to a tax-deferred annuity can help reduce taxes on Social Security benefits! If your investment portfolio is generating tax-exempt or taxable income, that income is counted when determining how much of your Social Security benefits to tax. Earnings growing tax deferred in a fixed or variable annuity, however, are ***not*** counted.

Of course, you should make sure you don't need the income from the tax-exempt or taxable investment before moving money to a tax-deferred annuity. Also, recognize that moving assets from taxable investments into a tax-deferred annuity is a taxable event and may result in the imposition of additional income taxes. Annuity earnings become taxable income at withdrawal or surrender, withdrawals in the early years of a contract could incur surrender penalties, and withdrawals prior to age 59½ may be subject to a 10 percent federal tax penalty. Variable annuities are subject to charges such as mortality and expense charges, and administrative fees.

* Definitions: Gross income = all income, earned and unearned
Adjusted gross income = gross income minus allowable deductions
Modified adjusted gross income = adjusted gross income (AGI) plus tax-exempt income
Provisional income = modified AGI plus one-half of Social Security benefits

Source: 2001 Tax Facts 1, pp. 787-788.

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