How Much Can You Earn and Still Receive Social Security?

Retirees are often ready, willing, and able to start new careers late in life that may earn them valuable incomes. However, some individuals may feel that it is not worthwhile to work for wages, only to have to "give up" some of those earnings in the form of higher income taxes. Frustrating as that may sound, it is important to understand the fundamentals of Social Security income and taxation so you can make your retirement years more "golden" and less "taxing!"

Income Limits—Paying to Work?

The first factor you must consider is your age and the so-called Social Security "give-back." If you are age 62 or older, but under the **full retirement age** (65–67 depending on your birth year), and are receiving reduced Social Security benefits, you must "give back" $1 for every $2 earned above $12,960 (in 2007). The year in which you attain full retirement age your benefits would be reduced by $1 for each $3 earned over $34,440. Upon attainment of full retirement age, you may earn as much as you like and Social Security benefits are not reduced.

How Much Is Taxable?

A second factor affecting your Social Security benefits is the potential income taxation of those benefits. Let's assume you are working and each month you also receive a check from the Social Security Administration. You must first determine how much, if any, of your benefits is included in your **gross taxable income.** The first step in estimating this is to add up the following items: your wages, taxable pensions, interest, dividends, and other taxable income; all tax-exempt interest; any exclusions from income; your net earnings (net income less net losses) from self-employment; and *half* of your Social Security benefits.

This total is then compared to a first-tier threshold of $25,000 for a single taxpayer or for a married taxpayer filing separately, who lived apart from his or her spouse for the entire year, or $32,000 for a married taxpayer filing jointly. For a married taxpayer filing separately, who lived with his or her spouse for any period during the year, the first-tier threshold is $0.

For the sake of illustration, suppose your total applicable earnings are $27,000 and you are married, filing jointly. Since the total does not exceed the applicable threshold amount of $32,000, then no portion of your Social Security benefits is taxable. However, if the total exceeds the applicable threshold amount, a further, more complicated, calculation must be performed to determine the amount of your benefits that are taxable. You can refer to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits,* for more information, or consult your financial or tax professional.

As you can see, performing these calculations is no simple task. Thus, it is important for anyone who is thinking about taking Social Security benefits while still working to understand the potential tax consequences and to plan accordingly. As with all tax planning matters, it is wise to consult a tax professional to ensure your planning decisions are consistent with your overall goals.

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