

Lump Sum

Your client can elect to have all the retroactive benefits counted in one tax year or divided pro rata over several tax years. For example, if Single Sally received \$84,468 in retro award given on 12/31/13 with an established onset date of 1/1/11 (i.e., 36 months), she can divide that over 3 years at \$28,156 a year. However, while this sounds appealing and it seems that she would pay less than \$150 in taxes, the results are not always positive if there is other income in the household.

Step 1

Hypo		Lump Sum 2013 (Hypo A)
SSDI	SSDI	\$84,468
	Wages	0
Plus	Other income	0
Plus	Certain Tax Exempt Income	0
Plus	50% of SSDI (includes half of attorney fee and premiums paid)	\$42,234
Equals	<b>Provisional Income</b>	<b>\$42,234</b>

Pro Rata 2011 (Hypo B)	Pro Rata 2012 (Hypo C)	Pro Rata 2013 (Hypo D)
\$28,156	\$28,156	\$28,156
\$900 (wages)	0	0
\$25,000 (401k, no penalty)	0	0
\$3,000 (bonds)	0	0
\$14,078		
<b>\$42,978</b>	<b>\$14,078</b>	<b>\$14,078</b>

Step 2 (choose categories)

	Hypo(	Lump Sum 2013 (Hypo A)
a.	Is provisional income less than \$25,000 (If so, no taxable benefits)	x
b.	Is provisional income between \$25,000 and \$34,000	x
c.	Is provisional income above \$34,000	Yes
		See c.

Pro Rata 2011 (Hypo B)	Pro Rata 2012 (Hypo C)	Pro Rata 2013 (Hypo D)
x	Yes	Yes
x	x	x
Yes	x	x
See c.	<b>Zero</b>	<b>Zero</b>

b. lesser of		<b>Inapplicable in this hypo</b>
*50% of SSDI benefits		
	SSDI benefits	
	Multiply by 50%	.5

*50% of Provisional Income above \$25,000		
	Provisional Income	\$
	Minus \$25,000	-\$25,000
	Multiply by 50%	.5
<b>Lowest Value – If negative not taxable</b>		

c. lesser of		Hypo A	Hypo B
*85% of SSDI benefits			
	SSDI benefits	\$84,468	<b>\$28,156</b>
	Multiply by 85%	.85	.85
		<b>\$71,798</b>	<b>\$23,933</b>
*85% of Provisional Income above \$34,000 plus \$4500			
	Provisional Income	<b>\$42,234</b>	<b>\$42,978</b>
	Minus 34,000	-\$34,000	-34000
		\$8,234	8978
	Multiply by 85%	.85	.85
		\$6,999	\$7,631
	Plus \$4,500	\$4,500	4,500
		<b>\$11,499</b>	<b>\$12,131</b>
*85% of Provisional Income above \$34,000 plus 50% of SSDI benefits			
	Provisional Income	\$42,234	<b>\$42,978</b>
	Minus \$34,000	-\$34000	-34000
		\$7,234	8978
	Multiply by 85%	.85	.85
		\$6149	\$7,631
	Plus 50% of SSDI	\$42,234(\$84,468/2)	\$14078 (\$28156/2)
		<b>\$48,383</b>	<b>\$21,709</b>
<b>Lowest Value – If negative not taxable</b>		<b>\$11,499</b>	<b>\$12,709</b>

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TAXES OWED

<b>Taxable Benefits Lump Sum 2013 (Hypo A)</b>	<b>Combined Pro Rata Taxable income 2011-2013</b>	<b>Pro Rata 2011 (Hypo B)</b>	<b>Pro Rata 2012 (Hypo C)</b>	<b>Pro Rata 2013 (Hypo D)</b>
<b>\$11499</b>	<b>\$12,709</b>	\$12,709	\$0	\$0

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Lump Sum (in this case) generates less taxes than by dividing the retroactive benefits annually