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Social Security and Equivalent Railroad Retirement Benefits

For use in preparing
1996 Returns

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Important Change

Voluntary withholding. Beginning in 1997, you may be able to choose to have federal income tax withheld from your social security or equivalent railroad retirement benefits. See *Tax withholding and estimated tax* under *Are Any of Your Benefits Taxable?*

Introduction

This publication explains the federal income tax rules for social security benefits and equivalent tier 1 railroad retirement benefits. It is prepared through the joint efforts of the Internal Revenue Service, the Social Security Administration (SSA), and the U.S. Railroad Retirement Board (RRB).

When the term “benefits” is used in this publication, it applies to both social security benefits and equivalent tier 1 railroad retirement benefits. Social security benefits include survivor and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable. Equivalent tier 1 railroad retirement benefits are the part of tier 1 benefits equal to the social security benefits that a railroad employee or beneficiary would have been entitled to receive if the railroad employee’s service had been covered under the social security system rather than the railroad retirement system.

If you received these benefits during 1996, you should have received a Form SSA-1099 or Form RRB-1099 (Form SSA-1042S or Form RRB-1042S if you are a nonresident alien) showing the amount.

What is discussed. This publication discusses how to determine whether your benefits are taxable and how to

report taxable benefits on Forms 1040 and 1040A. It also explains the treatment of lump-sum benefit payments and repayments that are more than the benefits you received during the year. The Appendix explains items shown on your Forms SSA-1099, SSA-1042S, RRB-1099, or RRB-1042S.

What is not discussed. This publication does not discuss the tax rules for railroad retirement benefits other than the social security equivalent benefit (SSEB) portion of tier 1 benefits (including special guaranty benefits). The tax rules for the non social security equivalent benefit (NSSEB) portion of tier 1 benefits, tier 2 benefits, vested dual benefits, and supplemental annuity benefits are discussed in Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*.

The tax rules for foreign social security benefits or railroad retirement benefits also are not discussed in this publication. These are taxable as an annuity, unless they are exempt from U.S. tax under a treaty.

Useful Items

You may want to see:

Publication

- 505** Tax Withholding and Estimated Tax
- 575** Pension and Annuity Income (Including Simplified General Rule)
- 590** Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- 1040-ES** Estimated Tax for Individuals
- W-4V** Voluntary Withholding Request

See *How To Get More Information*, near the end of this publication for information about getting these publications and forms.

Are Any of Your Benefits Taxable

To find out whether any of your benefits is taxable, compare the **base amount** for your filing status with the total of:

- 1) One-half of your benefits, plus
- 2) All your other income, including tax-exempt interest. (Do not reduce your income by any exclusions for interest from Series EE U.S. savings bonds, for foreign earned income or foreign housing, or for income earned in American Samoa or Puerto Rico by bona fide residents.)

Use the worksheet later in this discussion to figure this total income. If the total income is more than your base amount, part of your benefits are taxable.



If the only income you received during 1996 was your social security or equivalent tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return. If you have income in addition to your benefits, you may have to file a return even if none of your benefits are taxable.

If you are married and file a joint return for 1996, you and your spouse must combine your incomes and your benefits when figuring if any of your combined benefits are taxable. Even if your spouse did not receive any benefits, you must add your spouse's income to yours when figuring if any of your benefits are taxable.

Base amount. Your base amount is:

- \$25,000 if you are single, head of household, or qualifying widow(er),
- \$25,000 if you are married filing separately and **lived apart** from your spouse for **all** of 1996,
- \$32,000 if you are married filing jointly, or
- \$-0- if you are married filing separately and **lived with** your spouse at any time during 1996.

Who is taxed. The person who has the legal right to receive the benefits must determine if the benefits are taxable. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your portion of the benefits in figuring if any part is taxable to you. The portion of the benefits that belongs to your child must be added to your child's other income to see if any of those benefits are taxable.

Repayments. Any repayment of benefits you made during 1996 is automatically subtracted from the gross benefits you received in 1996. It does not matter if the repayment was for a benefit you received in an earlier year. (If you repaid more than the gross benefits you received in 1996, see *Repayments More Than Gross Benefits*, later.)

Your gross benefits are shown in box 3 of Form SSA-1099 or Form RRB-1099 and your repayments are shown in box 4. The amount in box 5 shows your net benefits for 1996 (box 3 minus box 4). Use the amount in box 5 to figure if any of your benefits are taxable.

Example. In 1995, you received \$3,000 in social security benefits, and in 1996 you received \$2,700. In March 1996, the Social Security Administration notified you that you should have received only \$2,500 in benefits in 1995. During 1996, you repaid \$500 to the Social Security Administration. The Form SSA-1099 you received for 1996 shows \$2,700 in box 3 (gross amount) and \$500 in box 4 (repayment). The amount in box 5 shows your net benefits of \$2,200 (\$2,700 minus \$500).

Reporting your benefits If part of your benefits is taxable, you must use Form 1040 or Form 1040A. You cannot use Form 1040EZ.

On Form 1040, report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 20a and the taxable part on line 20b. On Form 1040A, report your net benefits on line 13a and the taxable part on line 13b.

Also, if you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries. On Form 1040, enter "D" to the left of line 20a. On Form 1040A, enter "D" to the left of line 13a.

If none of your benefits are taxable, do not report any of them on your tax return. But if you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries. On Form 1040, enter "D" to the left of line 20a and "-0-" on line 20b. On Form 1040A, enter "D" to the left of line 13a and "-0-" on line 13b.

Tax withholding and estimated tax. Beginning in 1997, you may be able to choose to have federal income tax withheld from your benefits. To do this, contact your payer for more information. You may have to complete a Form W-4V, *Voluntary Withholding Request*. You can choose withholding at 7%, 15%, 28%, or 31% of your total benefit payment.



If part of your benefits is taxable and you do not have tax withheld from them, you may have to request additional withholding from other income or pay estimated tax during the year. For details, get Publication 505 or the instructions for Form 1040-ES.

Nonresident aliens. If you are a nonresident alien, the rules discussed in this publication do not apply to you. Instead, 85% of your U.S. social security or the SSEB portion of tier 1 railroad retirement benefits is taxed at a 30% rate, unless exempt by treaty. You will receive a Form SSA-1042S or Form RRB-1042S showing the amount of your benefits. These forms will also show the tax rate and the amount withheld from your benefits.

Under the treaties with Egypt, Germany, Israel, Italy, Japan, Malta, Romania, and the United Kingdom, U.S. social security or the SSEB portion of tier 1 railroad retirement benefits received by residents of these countries are exempt from U.S. tax. Under the treaty with India, U.S. social security or the SSEB portion of tier 1 railroad retirement benefits paid to individuals who are both residents and nationals of India are exempt from

tax if the benefits are for services performed for the United States, its subdivisions, or local authorities. For more information, get Publication 519, *U.S. Tax Guide for Aliens*.

Worksheet. You can use the following worksheet to figure whether your income plus half your benefits is more than your base amount.

- A. Write in the amount from **box 5** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 1996, for 1996 and earlier years, if you choose to report the full amount for the 1996 tax year. (If you received more than one form, combine the amounts from box 5 and write in the total.) A. _____

Note. *If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.*

- B. Enter one-half of the amount on line A B. _____

- C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total C. _____

- D. Write in any tax-exempt interest (such as interest on municipal bonds) plus exclusions from income (such as Series EE U.S. savings bond interest exclusion) D. _____

- E. Add lines B, C, and D and write in the total ... E. _____

Note. *Compare the amount on line E to your **base amount** for your filing status. If the amount on line E is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your base amount, some of your benefits are taxable.*

Example. You and your spouse are filing a joint return for 1996 and you both received social security benefits during the year. In January 1997, you received a Form SSA-1099 showing net benefits of \$6,600 in box 5. Your spouse received a Form SSA-1099 showing net benefits of \$2,400 in box 5. You also received a taxable pension of \$10,000 and interest income of \$500. You did not have any tax-exempt interest income. Your benefits are not taxable for 1996 because your income, as figured in the following worksheet, is not more than your base amount (\$32,000).

- A. Write in the amount from **box 5** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 1996, for 1996 and earlier years, if you choose to report the full amount for the 1996 tax year. (If you received more than one form, combine the amounts from box 5 and write in the total.) A. \$ 9,000

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

- B. Enter one-half of the amount on line A B. 4,500

- C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total C. 10,500

- D. Write in any tax-exempt interest income (such as interest on municipal bonds) plus exclusions from income (such as Series EE U.S. savings bond interest exclusion) D. -0-

- E. Add lines B, C, and D and write in the total ... E. \$15,000

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your base amount, some of your benefits are taxable.

How Much Is Taxable

If part of your benefits is taxable, how much is taxable depends on the total amount of your benefits and other income. Generally, the higher that total amount, the greater the taxable part of your benefits.

Maximum taxable part. The taxable part of your benefits usually cannot be more than 50%. However, up to 85% of your benefits may be taxable, only if one of the following situations applies to you.

- 1) The total of one-half of your benefits and all your other income is more than \$34,000 (\$44,000 if you are married filing jointly), or
- 2) You are married filing separately and **lived with your spouse** at any time during 1996.

Which worksheet to use. A worksheet to figure your taxable benefits is in the instructions for your Form 1040 or 1040A. You can use either that worksheet or Worksheet 1 in this publication, unless one of the following situations applies to you.

- 1) You contributed to an individual retirement arrangement (IRA) and your IRA deduction is limited because you or your spouse is covered by a retirement plan at work. In this situation you **must** use the

special worksheets in Appendix B of Publication 590 to figure both your IRA deduction and your taxable benefits.

- 2) Situation (1) does not apply and you exclude interest from Series EE U.S. savings bonds (Form 8815) or take an exclusion for foreign earned income or housing (Form 2555 or Form 2555-EZ) or for income earned in American Samoa (Form 4563) or Puerto Rico by bona fide residents. In this situation, you **must** use Worksheet 1 in this publication to figure your taxable benefits.
- 3) You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in this publication. See *Lump-Sum Election*, later.

Examples

The following pages contain a few examples you can use as a guide to figure the taxable part of your benefits.

Lump-Sum Election

You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 1996 in your 1996 income, even if the payment includes benefits for an earlier year. Generally, you use your 1996 income to figure the taxable part of the entire amount of benefits received in 1996.

However, if your taxable benefits would be less, you can choose to figure the taxable part of benefits received in 1996 for an earlier year as if they had been received in the earlier year. This method uses the earlier year's income to figure the taxable amount. You add the taxable part of those benefits to your taxable benefits for 1996 and include the total in your 1996 income.

Since the earlier year's taxable benefits are included in your 1996 income, no adjustment is made to the earlier year's return. **Do not** file an amended return for the earlier year.

Once you elect this method of figuring the taxable part of a lump-sum payment, you can revoke your election only with the consent of the Internal Revenue Service.



This type of lump-sum benefit payment should not be confused with the lump-sum death benefit that both the SSA and RRB pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.

If you received a lump-sum payment in 1996 that includes benefits for one or more earlier years after 1983, it will be included in box 3 of either Form SSA-1099 or Form RRB-1099. That part of any lump-sum payment for years before 1984 is not taxed and will not be shown

Example 1.

George White is single and files Form 1040 for 1996. In addition to receiving social security payments, he received a fully taxable pension of \$18,600, wages from a part-time job of \$9,400, and taxable interest income of \$990, for a total of \$28,990. He received a Form SSA-1099 in January 1997 that shows his net social security benefits of \$5,980 in box 5. To figure his taxable benefits, George completed Worksheet 1, shown below. On line 20a of his Form 1040, George enters his net benefits of \$5,980. On line 20b, he enters his taxable part of \$2,990.

Worksheet 1. Social Security and Equivalent Railroad Retirement Benefits	
<p><i>If you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries on your return.</i></p> <ul style="list-style-type: none"> • On Form 1040, enter "D" to the left of line 20a. • On Form 1040A, enter "D" to the left of line 13a. 	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 ...	1. <u>5,980</u>
Note: <i>If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.</i>	
2. Enter one-half of line 1	2. <u>2,990</u>
3. Enter the total of the amounts from:	
Form 1040: Lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19, and 21.	
Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b, and 12.	3. <u>28,990</u>
4. Form 1040A filers: Enter any exclusion for Series EE U.S. savings bond interest (Form 8815, line 14.)	
Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Series EE U.S. savings bond interest (Form 8815, line 14),	
• Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and	
• Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico	4. <u>-0-</u>
5. Add lines 2, 3, and 4.....	5. <u>31,980</u>
6. Enter the amount from Form 1040, line 30 or from Form 1040A, line 15c	6. <u>-0-</u>
7. Subtract line 6 from line 5	7. <u>31,980</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	8. <u>25,000</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. <u>6,980</u>
Note. <i>If line 9 is zero or less, stop here; none of your benefits are taxable. (Do not enter any amounts on Form 1040, line 20a or 20b or on Form 1040A, line 13a or line 13b. But if you are married filing separately and you lived apart from your spouse for all of 1996, enter -0- on Form 1040, line 20b or on Form 1040A, line 13b.) Otherwise, go on to line 10.</i>	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	10. <u>9,000</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. <u>-0-</u>
12. Enter the smaller of line 9 or line 10.....	12. <u>6,980</u>
13. Enter one-half of line 12	13. <u>3,490</u>
14. Enter the smaller of line 2 or line 13.....	14. <u>2,990</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. <u>-0-</u>
16. Add lines 14 and 15	16. <u>2,990</u>
17. Multiply line 1 by 85% (.85)	17. <u>5,083</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. <u>2,990</u>
<ul style="list-style-type: none"> • Enter the amount from line 1 above on Form 1040, line 20a or on Form 1040A, line 13a. • Enter the amount from line 18 above on Form 1040, line 20b or on Form 1040A, line 13b. <p>Note: <i>If you received a lump-sum payment in this year that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see whether you can report a lower taxable benefit.</i></p>	

Example 2.

Ray and Alice Hopkins file a joint return on Form 1040A for 1996. Ray is retired and received a fully taxable pension of \$15,500. He also received social security benefits, and his Form SSA-1099 for 1996 shows net benefits of \$5,600 in box 5. Alice worked during the year and had wages of \$14,000. She made a deductible payment to her IRA account of \$1,000. Ray and Alice have two savings accounts and had a total of \$250 in interest income. They complete Worksheet 1 (below) and find that none of Ray's benefits are taxable. They leave lines 13a and 13b of their Form 1040A blank.

Worksheet 1. Social Security and Equivalent Railroad Retirement Benefits	
<p><i>If you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries on your return.</i></p> <ul style="list-style-type: none"> • On Form 1040, enter "D" to the left of line 20a. • On Form 1040A, enter "D" to the left of line 13a. 	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 ...	1. <u>5,600</u>
Note: <i>If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.</i>	
2. Enter one-half of line 1	2. <u>2,800</u>
3. Enter the total of the amounts from:	
Form 1040: Lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19, and 21.	
Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b, and 12.	3. <u>29,750</u>
4. Form 1040A filers: Enter any exclusion for Series EE U.S. savings bond interest (Form 8815, line 14.)	
Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Series EE U.S. savings bond interest (Form 8815, line 14),	
• Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and	
• Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico	4. <u>-0-</u>
5. Add lines 2, 3, and 4.....	5. <u>32,550</u>
6. Enter the amount from Form 1040, line 30 or from Form 1040A, line 15c	6. <u>1,000</u>
7. Subtract line 6 from line 5	7. <u>31,550</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	8. <u>32,000</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. <u>-0-</u>
Note. <i>If line 9 is zero or less, stop here; none of your benefits are taxable. (Do not enter any amounts on Form 1040, line 20a or 20b or on Form 1040A, line 13a or line 13b. But if you are married filing separately and you lived apart from your spouse for all of 1996, enter -0- on Form 1040, line 20b or on Form 1040A, line 13b.) Otherwise, go on to line 10.</i>	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	10. _____
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. _____
12. Enter the smaller of line 9 or line 10.....	12. _____
13. Enter one-half of line 12	13. _____
14. Enter the smaller of line 2 or line 13.....	14. _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. _____
16. Add lines 14 and 15	16. _____
17. Multiply line 1 by 85% (.85)	17. _____
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. _____
<ul style="list-style-type: none"> • Enter the amount from line 1 above on Form 1040, line 20a or on Form 1040A, line 13a. • Enter the amount from line 18 above on Form 1040, line 20b or on Form 1040A, line 13b. <p>Note: <i>If you received a lump-sum payment in this year that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see whether you can report a lower taxable benefit.</i></p>	

Example 3.

Joe and Betty Johnson file a joint return on Form 1040 for 1996. Joe is a retired railroad worker and in 1996 received the social security equivalent portion of tier 1 benefits. Joe's Form RRB-1099 shows \$10,000 in box 5. Betty is a retired government worker and received a fully taxable pension of \$38,000. They had \$2,300 in interest income plus interest of \$200 on a Series EE U.S. savings bond. The savings bond interest qualified for exclusion. They figure their taxable benefits by completing Worksheet 1 below. Because the income on line 7 of the worksheet (\$45,500) is more than \$44,000, the taxable part of Joe's benefits is more than 50% of his net benefits. (See **Maximum taxable part** under **How Much is Taxable** earlier.) Joe must include 62 3/4% of his benefits in taxable income. Joe and Betty enter \$10,000 on line 20a, Form 1040, and \$6,275 on line 20b, Form 1040.

Worksheet 1. Social Security and Equivalent Railroad Retirement Benefits	
<p>If you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries on your return.</p> <ul style="list-style-type: none"> On Form 1040, enter "D" to the left of line 20a. On Form 1040A, enter "D" to the left of line 13a. 	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 ...	1. <u>10,000</u>
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.	
2. Enter one-half of line 1	2. <u>5,000</u>
3. Enter the total of the amounts from:	
Form 1040: Lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19, and 21.	
Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b, and 12.	3. <u>40,300</u>
4. Form 1040A filers: Enter any exclusion for Series EE U.S. savings bond interest (Form 8815, line 14.)	
Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Series EE U.S. savings bond interest (Form 8815, line 14),	
• Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and	
• Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico	4. <u>200</u>
5. Add lines 2, 3, and 4	5. <u>45,500</u>
6. Enter the amount from Form 1040, line 30 or from Form 1040A, line 15c	6. <u>-0-</u>
7. Subtract line 6 from line 5	7. <u>45,500</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	8. <u>32,000</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. <u>13,500</u>
Note. If line 9 is zero or less, stop here; none of your benefits are taxable. (Do not enter any amounts on Form 1040, line 20a or 20b or on Form 1040A, line 13a or line 13b. But if you are married filing separately and you lived apart from your spouse for all of 1996, enter -0- on Form 1040, line 20b or on Form 1040A, line 13b.) Otherwise, go on to line 10.	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	10. <u>12,000</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. <u>1,500</u>
12. Enter the smaller of line 9 or line 10	12. <u>12,000</u>
13. Enter one-half of line 12	13. <u>6,000</u>
14. Enter the smaller of line 2 or line 13	14. <u>5,000</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. <u>1,275</u>
16. Add lines 14 and 15	16. <u>6,275</u>
17. Multiply line 1 by 85% (.85)	17. <u>8,500</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. <u>6,275</u>
<ul style="list-style-type: none"> Enter the amount from line 1 above on Form 1040, line 20a or on Form 1040A, line 13a. Enter the amount from line 18 above on Form 1040, line 20b or on Form 1040A, line 13b. <p>Note: If you received a lump-sum payment in this year that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see whether you can report a lower taxable benefit.</p>	

Example 4.

Bill and Eileen Jones are married and live together, but file separate Form 1040 returns for 1996. Bill earned \$8,000 during 1996. The only other income he had for the year was \$4,000 net social security benefits (box 5 of his Form SSA-1099). Bill figures his taxable benefits by completing Worksheet 1. He must include 85% of his social security benefits in his taxable income because he is married filing separately and lived with his spouse during 1996. See **How Much Is Taxable** earlier.

Worksheet 1. Social Security and Equivalent Railroad Retirement Benefits	
If you are married filing separately and you lived apart from your spouse for all of 1996, make the following entries on your return.	
<ul style="list-style-type: none"> • On Form 1040, enter "D" to the left of line 20a. • On Form 1040A, enter "D" to the left of line 13a. 	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 ...	1. <u>4,000</u>
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.	
2. Enter one-half of line 1	2. <u>2,000</u>
3. Enter the total of the amounts from:	
Form 1040: Lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19, and 21.	
Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b, and 12.	3. <u>8,000</u>
4. Form 1040A filers: Enter any exclusion for Series EE U.S. savings bond interest (Form 8815, line 14.)	
Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Series EE U.S. savings bond interest (Form 8815, line 14),	
• Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and	
• Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico	4. <u>-0-</u>
5. Add lines 2, 3, and 4.....	5. <u>10,000</u>
6. Enter the amount from Form 1040, line 30 or from Form 1040A, line 15c	6. <u>-0-</u>
7. Subtract line 6 from line 5	7. <u>10,000</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	8. <u>-0-</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-.....	9. <u>10,000</u>
Note. If line 9 is zero or less, stop here; none of your benefits are taxable. (Do not enter any amounts on Form 1040, line 20a or 20b or on Form 1040A, line 13a or line 13b. But if you are married filing separately and you lived apart from your spouse for all of 1996, enter -0- on Form 1040, line 20b or on Form 1040A, line 13b.) Otherwise, go on to line 10.	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996)	10. <u>-0-</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. <u>10,000</u>
12. Enter the smaller of line 9 or line 10.....	12. <u>-0-</u>
13. Enter one-half of line 12	13. <u>-0-</u>
14. Enter the smaller of line 2 or line 13.....	14. <u>-0-</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. <u>8,500</u>
16. Add lines 14 and 15	16. <u>8,500</u>
17. Multiply line 1 by 85% (.85)	17. <u>3,400</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. <u>3,400</u>
<ul style="list-style-type: none"> • Enter the amount from line 1 above on Form 1040, line 20a or on Form 1040A, line 13a. • Enter the amount from line 18 above on Form 1040, line 20b or on Form 1040A, line 13b. 	
Note: If you received a lump-sum payment in this year that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see whether you can report a lower taxable benefit.	

on the form. The form will also show the year the payment is for. However, Form RRB-1099 will not show a breakdown by year of any lump-sum payment for years before 1994—you must write to the U.S. Railroad Retirement Board for a breakdown by year for any amount shown in box 9. See *Box 9—Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 1994* under the instructions for Form RRB-1099 in the *Appendix* for the address. Box 9 of Form RRB-1099 shows the SSEB portion of tier 1 paid for years prior to 1994.

Making the election. If you received a lump-sum benefit payment in 1996 that includes benefits for one or more earlier years, take the following steps to determine whether the election will lower your taxable benefits:

- 1) Complete Worksheet 1 in this publication.
- 2) Complete Worksheet 2 and Worksheet 3 as appropriate. Complete Worksheet 2 if your lump-sum payment was for 1994 or 1995. Complete Worksheet 3 if it was for 1993 or an earlier year. Complete a separate Worksheet 2 or Worksheet 3 for each earlier year for which you received the lump-sum payment.
- 3) Complete Worksheet 4.

If the lump-sum election method gives you a lower amount of taxable benefits, you can choose to report the lower taxable amount on your return. On Form 1040, enter “LSE” to the left of line 20a. On Form 1040A, enter “LSE” to the left of line 13a.

Legal expenses. You can usually deduct legal expenses that you incur in attempting to produce or collect taxable income or that you pay in connection with the determination, collection, or refund of any tax.

Legal expenses allocated to collecting the **taxable** part of your benefits are deductible as a miscellaneous deduction on line 22, Schedule A (Form 1040). See Publication 529, *Miscellaneous Deductions* for more information.

Guideline. Use the following example as a guideline for filling in the worksheets in this publication.

Example. Jane Jackson is single and in 1995 she applied for social security disability benefits but was told she was ineligible to receive them. She appealed the decision and won her appeal. In 1996, she received a lump-sum payment of \$6,000 that included \$2,000 for 1995. Jane has two choices. She can use her 1996 income to figure the taxable part of the entire \$6,000 payment, or she can use her 1995 income to figure the taxable part of the \$2,000 received for 1995. In the latter case, her 1996 income would include the sum of the taxable benefits for each year as figured under the lump-sum election method.

Jane was single in both 1995 and 1996. In 1996, in addition to the lump-sum payment of \$6,000, she received \$5,000 in social security payments and the following other income:

Fully taxable pension	\$18,000
Salary from part-time job	3,500
Interest income	2,500
Dividend income	1,500
Total income	<u>\$25,500</u>

Jane received the following income in 1995:

Salary (before retiring on disability)	\$20,000
Interest income	2,000
Dividend income	1,000
Gross income	<u>\$23,000</u>

To figure whether the lump-sum election results in lower 1996 taxable benefits for her, Jane uses worksheets 1, 2, and 4. These filled-in worksheets are shown on the following pages. Jane figures that her taxable benefits would be \$3,000 if she uses her 1996 income to figure the taxable part of the full lump-sum payment.

Jane uses Worksheet 2 to figure the taxable part of the \$2,000 lump-sum payment for 1995 under the lump-sum election method. Because her income from line 6 of Worksheet 2 was less than the base amount for a single person (\$25,000), Jane has no taxable benefits for 1995. Therefore, none of the \$2,000 in lump-sum benefits for 1995 has to be reported on Jane’s 1996 return.

Jane uses Worksheet 4 to figure the taxable part of her benefits for 1996. Those benefits are \$4,000 of the lump-sum payment and the \$5,000 of benefits received during the year. She determines that her taxable benefits for 1996 under the lump-sum election method would be \$2,500. Because she would have no taxable benefits for 1995, this method gives Jane a total amount of taxable benefits of \$2,500.

Jane compares the total taxable benefits on Worksheet 4 (\$2,500) with the taxable benefits on Worksheet 1 (\$3,000). Her taxable benefits would be \$500 less if she chooses to use the lump-sum election method. To make this choice, Jane writes “LSE” to the left of line 20a on her Form 1040. Then she enters her total benefits of \$11,000 (\$5,000 plus \$6,000) on line 20a and her total taxable benefits of \$2,500 (from Worksheet 4) on line 20b.

Jane’s filled-in worksheets follow.

**Worksheet 1. Social Security
and Equivalent Railroad Retirement
Benefits**

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 (if applicable)	11,000
---	--------

Note. If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.

2. Enter one-half of line 1	5,500
-----------------------------------	-------

**Worksheet 2. Lump-Sum Payment
for 1994 or 1995 Received in 1996
(for use with Worksheet 4)
Enter earlier year 1995**

3. Enter the total of the amounts from:
 Form 1040: Lines 7, 8a, 8b, 9–14, 15b, 16b,
 17–19, and 21.
 Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b,
 and 12 25,500
4. Form 1040A filers: Enter any exclusion for Series
 EE U.S. savings bond interest (Form 8815, line
 14).
 Form 1040 filers: Enter the total of any
 exclusions for:
- Series EE U.S. savings bond interest
 (Form 8815, line 14),
 - Foreign earned income or housing (Form
 2555, lines 43 and 48, or Form 2555–EZ,
 line 18),
 - Certain income of bona fide residents of
 American Samoa (Form 4563, line 15) or
 Puerto Rico –0–
5. Add lines 2, 3, and 4 31,000
6. Enter the amount from Form 1040, line 30 or
 from Form 1040A, line 15c –0–
7. Subtract line 6 from line 5 31,000
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0
 if married filing separately and you lived with your
 spouse at any time during 1996) 25,000
9. Subtract line 8 from line 7. If zero or less, enter –
 0– 6,000

Note. If line 9 is zero or less, stop here; none of
 your benefits are taxable. (Do not enter any
 amounts on Form 1040, line 20a or 20b or on
 Form 1040A, line 13a or 13b. But if you are
 married filing separately and you **lived apart**
 from your spouse for all of 1996, enter –0– on
 Form 1040, line 20b or on Form 1040A, line
 13b.) Otherwise, go on to line 10.

10. Enter \$9,000 (\$12,000 if married filing jointly; \$0
 if married filing separately and you lived with your
 spouse at any time in 1996) 9,000
11. Subtract line 10 from line 9. If zero or less, enter
 –0– –0–
12. Enter the **smaller** of line 9 or line 10 6,000
13. Enter one-half of line 12 3,000
14. Enter the **smaller** of line 2 or line 13 3,000
15. Multiply line 11 by 85% (.85). If line 11 is zero,
 enter –0– –0–
16. Add lines 14 and 15 3,000
17. Multiply line 1 by 85% (.85) 9,350
18. **Taxable benefits.** Enter the smaller of line 16 or
 line 17 3,000
- Enter the amount from line 1 above on Form
 1040, line 20a or on Form 1040A, line 13a.
 - Enter the amount from line 18 above on Form
 1040, line 20b or on Form 1040A, line 13b.

1. Enter the total amount from **box 5** of **ALL** your
Forms SSA–1099 and **RRB–1099** for the earlier
 year, plus the lump-sum payment for the earlier
 year received after that year 2,000

Note. If line 1 is zero or less, skip lines 2 through 20
 and enter –0– on line 21. Otherwise, go on to line 2.

2. Enter one-half of line 1 1,000
3. Enter the adjusted gross income reported on
 your return for the earlier year 23,000
4. Enter the total of any exclusions/adjustments
 you claimed in the earlier year for Series EE U.S.
 savings bond interest (Form 8815), foreign
 earned income or housing (Form 2555 or Form
 2555–EZ), and certain income of bona fide
 residents of American Samoa (Form 4563) or
 Puerto Rico –0–
5. Enter any tax-exempt interest received in the
 earlier year –0–
6. Add lines 2, 3, 4, and 5 24,000
7. Enter the taxable benefits reported on your
 return for the earlier year –0–
8. Subtract line 7 from line 6 24,000
9. Enter \$25,000 (\$32,000 if married filing jointly for
 the earlier year; \$0 if married filing separately for
 the earlier year and you lived with your spouse at
 any time during the year) 25,000
10. Subtract line 9 from line 8. –0–

Note. If line 10 is zero or less, skip lines 11
 through 20 and enter –0– on line 21. Otherwise,
 go on to line 11.

11. Enter \$9,000 (\$12,000 if married filing jointly for
 the earlier year; \$0 if married filing separately for
 the earlier year and you lived with your spouse at
 any time during the year) _____
12. Subtract line 11 from line 10. If zero or less, enter
 –0– _____
13. Enter the **smaller** of line 10 or line 11 _____
14. Enter one-half of line 13 _____
15. Enter the **smaller** of line 2 or line 14 _____
16. Multiply line 12 by 85% (.85). If line 12 is zero,
 enter –0– _____
17. Add lines 15 and 16 _____
18. Multiply line 1 by 85% (.85) _____
19. **Refigured taxable benefits.** Enter the **smaller**
 of line 17 or line 18 _____
20. Enter taxable benefits reported on your return for
 the earlier year (or as refigured due to a previous
 lump-sum payment for the year). _____

21. **Additional taxable benefits.** Subtract line 20 from line 19. Also enter this amount on line 19 of Worksheet 4 -0-

Worksheet 4. Lump-sum Election Method

Complete Worksheet 1 and Worksheets 2 and 3 as appropriate before completing this worksheet.

1. Enter the total amount from **box 5** of ALL your **Forms SSA-1099 and RRB-1099** minus the lump sum payment for years before 1996 9,000

Note. If line 1 is zero or less, enter zero on lines 2 and 11 and skip lines 3 through 10. Otherwise, go on to line 2.

2. Enter one-half of line 1 4,500
 3. Enter the amount from line 3 of Worksheet 1 25,500
 4. Enter the amount from line 4 of Worksheet 1 -0-
 5. Add lines 2, 3, and 4 30,000
 6. Enter the amount from line 6 of Worksheet 1 -0-
 7. Subtract line 6 from line 5 30,000
 8. Enter the amount from line 8 of Worksheet 1 25,000
 9. Subtract line 8 from line 7. If zero or less, enter -0- 5,000

Note. If line 9 is zero or less, skip lines 10 through 17 and enter -0- on line 18. Otherwise, go on to line 10.

10. Enter the amount from line 10 of Worksheet 1 ... 9,000
 11. Subtract line 10 from line 9. If zero or less, enter -0- -0-
 12. Enter the **smaller** of line 9 or line 10 5,000
 13. Enter one-half of line 12 2,500
 14. Enter the **smaller** of line 2 or line 13 2,500
 15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- -0-
 16. Add lines 14 and 15 2,500
 17. Multiply line 1 by 85% (.85) 7,650
 18. Enter the **smaller** of line 16 or line 17 2,500
 19. Enter the total of the amounts from line 21 of Worksheet 2 and line 14 of Worksheet 3 for all earlier years for which the lump-sum payment was received -0-

20. **Taxable benefits under lump-sum election method.** Add lines 18 and 19 2,500

Note. If line 20 above is not smaller than line 18 of Worksheet 1, you cannot use this method to figure your taxable benefits. Instead, follow the instructions on Worksheet 1 to report your benefits.

Repayments More Than Gross Benefits

In some situations, your Form SSA-1099 or Form RRB-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received. If this occurred, your net benefits in box 5 will be a negative figure and none of your benefits will be taxable. (A figure in parentheses “()” in box 5 indicates a negative figure.) If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year. If you have any questions about this negative figure, contact your local Social Security Administration office or your local U.S. Railroad Retirement Board field office.

Joint return. If you and your spouse file a joint return, and your Forms SSA-1099 or RRB-1099 show that your repayments are more than your gross benefits, but your spouse’s are not, subtract the amount in box 5 of your form from the amount in box 5 of your spouse’s form. You do this to get your net benefits when figuring if your combined benefits are taxable.

Example. John and Mary file a joint return for 1996. John received Form SSA-1099 showing \$3,000 in box 5. Mary also received Form SSA-1099 and the amount in box 5 was (\$500). John and Mary will use \$2,500 (\$3,000 minus \$500) as the amount of their net benefits when figuring if any of their combined benefits are taxable.

Repayment of benefits received in an earlier year. If the sum of the amount shown in box 5 of all of your Forms SSA-1099 and RRB-1099 is a negative figure, you can take an itemized deduction for the part of this negative figure that represents benefits you included in gross income in an earlier year.

This deduction, **if \$3,000 or less**, is subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions. Claim it on line 22, Schedule A (Form 1040).

If this deduction is more than \$3,000, you should figure your tax two ways:

- 1) Figure your tax for 1996 with the itemized deduction. This more-than-\$3,000 deduction is **not** subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions.
- 2) Figure your tax for 1996 without the itemized deduction. If a portion of the negative figure represents a repayment of 1984 benefits, you must first recompute your 1984 tax, reducing your 1984 social security benefits by that portion. Recompute your 1985, 1986, etc., tax in the same manner, using any portion of the negative figure that represents a repayment of benefits for those years. Reduce your 1996 tax, figured without the deduction, by the total

decrease in your 1984, 1985, 1986, etc., tax as recomputed.

Compare the tax figured in methods (1) and (2). Your tax for 1996 is the smaller of the two amounts. If method (1) results in less tax, take the itemized deduction on line

27, Schedule A (Form 1040). If method (2) results in less tax, claim a credit for the applicable amount on line 57 of Form 1040 and write "I.R.C. 1341" in the margin to the left of line 57. If both methods produce the same tax, deduct the repayment on line 27, Schedule A (Form 1040).

Worksheet 1. **Social Security and Equivalent Railroad Retirement Benefits**

If you are married filing separately and you **lived apart** from your spouse for all of 1996, make the following entries on your return.

- On Form 1040, enter "D" to the left of line 20a.
- On Form 1040A, enter "D" to the left of line 13a.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 **1.** _____
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.
2. Enter one-half of line 1 **2.** _____
3. Enter the total of the amounts from:
Form 1040: Lines 7, 8a, 8b, 9-14, 15b, 16b, 17-19, and 21.
Form 1040A: Lines 7, 8a, 8b, 9, 10b, 11b, and 12. **3.** _____
4. **Form 1040A filers:** Enter any exclusion for Series EE U.S. savings bond interest (Form 8815, line 14.)
Form 1040 filers: Enter the total of any exclusions/adjustments for:
 - Series EE U.S. savings bond interest (Form 8815, line 14),
 - Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and
 - Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico**4.** _____
5. Add lines 2, 3, and 4..... **5.** _____
6. Enter the amount from Form 1040, line 30 or from Form 1040A, line 15c **6.** _____
7. Subtract line 6 from line 5 **7.** _____
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996) **8.** _____
9. Subtract line 8 from line 7. If zero or less, enter -0-..... **9.** _____
Note. If line 9 is zero or less, stop here; none of your benefits are taxable. (Do not enter any amounts on Form 1040, line 20a or 20b or on Form 1040A, line 13a or line 13b. But if you are married filing separately and you lived apart from your spouse for all of 1996, enter -0- on Form 1040, line 20b or on Form 1040A, line 13b.) Otherwise, go on to line 10.
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and you lived with your spouse at any time during 1996) **10.** _____
11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** _____
12. Enter the **smaller** of line 9 or line 10..... **12.** _____
13. Enter one-half of line 12..... **13.** _____
14. Enter the **smaller** of line 2 or line 13..... **14.** _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15.** _____
16. Add lines 14 and 15 **16.** _____
17. Multiply line 1 by 85% (.85) **17.** _____
18. **Taxable benefits.** Enter the **smaller** of line 16 or line 17 **18.** _____

- Enter the amount from line 1 above on Form 1040, line 20a or on Form 1040A, line 13a.
- Enter the amount from line 18 above on Form 1040, line 20b or on Form 1040A, line 13b.

Note: If you received a lump-sum payment in this year that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see whether you can report a lower taxable benefit.

Worksheet 2. **Lump-Sum Payment for 1994 or 1995 Received in 1996**
(For use with Worksheet 4)

Enter earlier year _____

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 for the earlier year, plus the lump-sum payment received for the earlier year received after that year	1.	_____
<i>Note: If line 1 is zero or less, skip lines 2 through 20 and enter -0- on line 21. Otherwise, go on to line 2.</i>		
2. Enter one-half of line 1	2.	_____
3. Enter the adjusted gross income reported on your return for the earlier year	3.	_____
4. Enter the total of any exclusions/adjustments you claimed in the earlier year for Series EE U.S. savings bond interest (Form 8815), foreign earned income or housing (Form 2555 or Form 2555-EZ), and certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico	4.	_____
5. Enter any tax-exempt interest received in the earlier year	5.	_____
6. Add lines 2, 3, 4, and 5.	6.	_____
7. Enter taxable benefits reported on your return for the earlier year	7.	_____
8. Subtract line 7 from line 6	8.	_____
9. Enter \$25,000 (\$32,000 if married filing jointly for the earlier year; \$0 if married filing separately for the earlier year and you lived with your spouse at any time during the year)	9.	_____
10. Subtract line 9 from line 8.	10.	_____
<i>Note: If line 9 is zero or less, skip lines 11 through 20 and enter -0- on line 21. Otherwise, go on to line 11.</i>		
11. Enter \$9,000 (\$12,000 if married filing jointly for the earlier year; \$0 if married filing separately for the earlier year and you lived with your spouse at any time during the year)	11.	_____
12. Subtract line 11 from line 10. If zero or less, enter -0-	12.	_____
13. Enter the smaller of line 10 or line 11	13.	_____
14. Enter one-half of line 13.....	14.	_____
15. Enter the smaller of line 2 or line 14	15.	_____
16. Multiply line 12 by 85% (.85). If line 12 is zero, enter -0-.....	16.	_____
17. Add lines 15 and 16.....	17.	_____
18. Multiply line 1 by 85% (.85)	18.	_____
19. Refigured taxable benefits. Enter the smaller of line 17 or line 18.....	19.	_____
20. Enter taxable benefits reported on your return for the earlier year (or as refigured due to a previous lump-sum payment for the year)	20.	_____
21. Additional taxable benefits. Subtract line 20 from line 19. Also enter this amount on line 19 of Worksheet 4	21.	_____

Note: Do not file an amended return for this earlier year. Complete a separate Worksheet 2 or Worksheet 3 for each earlier year for which you received a lump-sum payment in 1996.

Worksheet 3. **Lump-Sum Payment for 1993 or Earlier Year Received in 1996**
(For Use with Worksheet 4)

Enter earlier year _____

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 for the earlier year, plus the lump-sum payment for the earlier year received after that year	1.	_____
<i>Note: If line 1 is zero or less, skip lines 2 through 13 and enter -0- on line 14. Otherwise, go on to line 2.</i>		
2. Enter one-half of line 1	2.	_____
3. Enter the adjusted gross income reported on your return for the earlier year	3.	_____
4. Enter the total of any exclusions/adjustments you claimed in the earlier year for Series EE U.S. savings bond interest (Form 8815), foreign earned income or housing (Form 2555 or Form 2555-EZ), and certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico	4.	_____
5. Enter any tax-exempt interest received in the earlier year	5.	_____
6. Add lines 2, 3, 4, and 5.	6.	_____
7. Enter the taxable benefits reported on your return for the earlier year	7.	_____
8. Subtract line 7 from line 6	8.	_____
9. Enter \$25,000 (\$32,000 if married filing jointly for the earlier year; \$0 if married filing separately for the earlier year and you lived with your spouse at any time during the year)	9.	_____
10. Subtract line 9 from line 8.	10.	_____
<i>Note. If line 10 is zero or less, skip lines 11 through 13 and enter -0- on line 14. Otherwise, go on to line 11.</i>		
11. Enter one-half of line 10	11.	_____
12. Refigured taxable benefits. Enter the smaller of line 2 or line 11	12.	_____
13. Enter taxable benefits reported on your return for the earlier year (or as refigured due to a previous lump-sum payment for the year)	13.	_____
14. Additional taxable benefits. Subtract line 13 from line 12. Also enter this amount on line 19 of Worksheet 4	14.	_____

Note: Do not file an amended return for this earlier year. Complete a separate Worksheet 2 or Worksheet 3 for each earlier year for which you received a lump-sum payment in 1996.

Worksheet 4. **Lump-Sum Election Method**

Complete Worksheet 1 and Worksheets 2 and 3 as appropriate before completing this worksheet.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099, minus the lump sum payment for years before 1996..... **1.** _____
Note: If line 1 is zero or less, enter zero on lines 2 and 11 and skip lines 3 through 10. Otherwise, go on to line 2.
2. Enter one-half of line 1 **2.** _____
3. Enter the amount from line 3 of Worksheet 1 **3.** _____
4. Enter the amount from line 4 of Worksheet 1 **4.** _____
5. Add lines 2, 3, and 4 **5.** _____
6. Enter the amount from line 6 of Worksheet 1 **6.** _____
7. Subtract line 6 from line 5..... **7.** _____
8. Enter the amount from line 8 of Worksheet 1 **8.** _____
9. Subtract line 8 from line 7. If zero or less, enter -0- **9.** _____
Note. If line 9 is zero or less, skip lines 10 through 17 and enter -0- on line 18. Otherwise, go on to line 10.
10. Enter the amount from line 10 of Worksheet 1 **10.** _____
11. Subtract line 10 from line 9. If zero or less, enter -0- **11.** _____
12. Enter the **smaller** of line 9 or line 10 **12.** _____
13. Enter one-half of line 12..... **13.** _____
14. Enter the **smaller** of line 2 or line 13 **14.** _____
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-..... **15.** _____
16. Add lines 14 and 15..... **16.** _____
17. Multiply line 1 by 85% (.85) **17.** _____
18. Enter the **smaller** of line 16 or line 17 **18.** _____
19. Enter the total of the amounts from line 21 of Worksheet 2 and line 14 of Worksheet 3 for all earlier years for which the lump-sum payment was received **19.** _____
20. **Taxable benefits under lump-sum election method.** Add lines 18 and 19..... **20.** _____
Note. If line 20 above is not smaller than line 18 of Worksheet 1, you cannot use this method to figure your taxable benefits. Instead, follow the instructions on Worksheet 1 to report your benefits.

You can choose to report your taxable benefits under this method if line 20 above is smaller than line 18 of Worksheet 1. To elect this method:

- Make the following entries on your return:
 On Form 1040, enter "LSE" to the left of line 20a.
 On Form 1040A, enter "LSE" to the left of line 13a.
- Enter the amount from line 1 of Worksheet 1 on Form 1040, line 20a or on Form 1040A, line 13a. If you are married filing separately and you lived apart from your spouse for all of 1996, also make the entries described at the top of Worksheet 1.
- If line 20 above is zero, follow the instructions below line 9 on Worksheet 1. Otherwise, enter the amount from line 20 above on Form 1040, line 20b or on 1040A, line 13b.

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

1996			• PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name		Box 2. Beneficiary's Social Security Number			
Box 3. Benefits Paid in 1996	Box 4. Benefits Repaid to SSA in 1996	Box 5. Net Benefits for 1996 (Box 3 minus Box 4)			
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4			
		Box 7. Claim Number (Use this number if you need to contact SSA.)			
Form SSA-1099-SSM (1-87)			DO NOT RETURN THIS FORM TO SSA OR IRS		

Appendix

This appendix explains items shown on Form SSA-1099 and Form RRB-1099. Forms SSA-1042S and RRB-1042S, for nonresident aliens, contain the same items plus a few additional ones. These are also explained.

Note. The illustrated versions of Forms SSA-1099 and RRB-1099 in this appendix are proof copies of the forms as they appeared when this publication went to print. The information should be essentially the same as the information on the form you received from either the SSA or the RRB. You should, however, compare the form you received with the one shown in this publication to note any differences.

Form SSA-1099

Every person who received social security benefits will receive a Form SSA-1099. If you receive benefits on more than one social security record, you may get more than one Form SSA-1099. IRS Notice 703 will be enclosed with this form. It contains a worksheet to help you figure if any of your benefits are taxable. Do not mail Notice 703 to either the IRS or the SSA.

Box 1—Name

The name shown in this box refers to the person for whom the social security benefits shown on the statement were paid. If you received benefits for yourself, your name will be shown.

Box 2—Beneficiary's Social Security Number

This is the social security number, if known, of the person named in box 1.

Note. In all your correspondence with the Social Security Administration, be sure to use the claim number shown in box 7.

Box 3—Benefits Paid in 1996

The figure shown in this box is the total amount of benefits paid in 1996 to you (the person named in box 1). This figure may not agree with the amounts you actually received because adjustments may have been made to your benefits before you received them. An asterisk (*) after the figure shown in this box means that it includes benefits received in 1996 for one or more earlier years.

Description of Amount in Box 3

This portion of the form describes the items included in the amount shown in box 3. It lists the benefits paid and any adjustments made. Only the adjustments that apply to you will be shown. If no adjustments were made to the benefits paid, the word "none" will be shown.

Amounts paid by check or direct deposit. This is the amount you actually received or that was deposited directly into your account in a financial institution in 1996, or that was paid to others in 1996 in response to a court order for alimony or child support.

Additions. The following adjustment items may have been deducted from your benefits in 1996. If amounts appear on your Form SSA-1099 next to these items, they will be added to the amount shown in *Amounts paid by check or direct deposit*. These amounts are treated as benefits paid to you because you authorized the deduction or because it is required by law. Do not reduce the amount of net social security benefits (box 5) by any of the items listed below. Use the amount in box 5 to figure taxable social security.

Medicare premiums paid for you. If you have Medicare premiums deducted from your benefits, this is the amount that was withheld during 1996. The basic monthly premium in 1996 was \$42.50, but it could be higher if you enrolled after you were first eligible or if you had a break in coverage.

Workers' compensation offset. If you are disabled and receive workers' compensation or Part C Black Lung payments, your benefits are subject to a payment limit. An entry will be shown here if your benefits were reduced to stay within this limit. An entry will also be shown here if your benefits were reduced because the person on whose social security record you were paid is disabled and also received workers' compensation or Part C Black Lung payments.

Fees paid to an attorney or other legal obligations. If you had an attorney handle your social security claim, the figure shown here is the fee withheld from your benefits and paid directly to your attorney. In addition, if you are required to pay child support or alimony and these payments were withheld from your benefits, the entry here shows the total amount of such payments withheld.

Deductions for work or other adjustments. Amounts withheld from your benefits because of work or to recover an overpayment of any type of benefit are benefits paid to you and will be shown here. They also may be treated as benefits repaid to SSA and included in the amount in box 4.

Amounts withheld to recover SSI payments. Part of a person's supplemental security income (SSI) payments is withheld if that person also receives social security benefits. When a person applies for both social security benefits and SSI payments, the SSI payments may sometimes be made before a decision on the person's social security claim is made. After the person is found

eligible for social security benefits, the amount that should have been withheld from the SSI payments is deducted from the social security benefits. These amounts are considered social security benefits. An entry here means that an amount was deducted from your social security benefits to recover part of your SSI payments.

Total Additions. The figure shown here is the sum of the amounts paid by check or direct deposit plus all the additions described previously.

Subtractions. The following adjustment items may have been included in the payments you received in 1996. If amounts appear on your Form SSA-1099 next to these items, they will be subtracted from *Total Additions*.

Payments for months before December 1983.

The figure shown here is the amount of benefits you received in 1996 that was for months before December 1983. These benefits are not taxable regardless of when they are paid.

Lump-sum death payment. The lump-sum death payment is not subject to tax. An entry here means you received this kind of payment in 1996.

Amounts refunded to you. The amount shown here may include Medicare premiums you paid that were in excess of the amount actually due. It also may include amounts withheld in 1995 to pay your attorney if the amounts were larger than the fee actually paid.

Total Subtractions. The figure shown here is the sum of all the subtractions described previously.

Benefits for 1996. The amount shown here is the result of subtracting the figure in *Total Subtractions* from the figure in *Total Additions*. This is the same amount as that shown in box 3.

***Box 3 includes \$ _____ paid in 1996 for 1995, 1994, 1993, 1992, 1991, 1990, and in 1996 for other taxable years.** The figure shown here is the amount of any lump-sum benefit payment received in 1996 that is for an earlier year after 1983. See *Lump-Sum Election*, earlier, for a full discussion on how these payments are handled.

Box 4—Benefits Repaid to SSA in 1996

The figure shown in this box is the total amount of benefits you repaid to SSA in 1996.

Description of Amount in Box 4

This portion of the form describes the items included in the amount shown in box 4. It lists the amount of benefit checks you returned to SSA and any adjustments for other types of repayments. The amounts listed include all amounts repaid in 1996, regardless of when the benefits were received. Only the repayments that apply to you will be shown. If you did not make any repayments, the word "none" will be shown.

Amounts of any of your social security checks that were returned to SSA. If any of your benefit checks were returned to SSA, the total is shown here.

Adjustments for work and/or overpayments. If you had any amounts withheld from your benefit checks because of work or to recover an overpayment of retirement, survivors, or disability benefits, the total will be shown here. This may also be shown as *Deductions for work or other adjustments* under *Description of Amount in Box 3*.

Amounts paid to SSA in cash, or by personal check or money order, etc., excluding Medicare premiums. This is the amount you repaid to SSA by direct remittance.

Benefits Repaid to SSA in 1996. The amount shown here is the sum of all your repayments. This total is the same as that shown in box 4.

Box 5—Net Benefits for 1996 (Box 3 minus Box 4)

The figure in this box is the net amount of benefits paid to you for the year. It is the result of subtracting the figure in box 4 from the figure in box 3. Enter this amount on line A of IRS Notice 703, or on line 1 of Worksheet 1 shown earlier, or on the worksheet in either the Form 1040 or 1040A instruction package.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means you repaid more money than you received in 1996. If you have any questions about this negative figure, contact your local SSA office. For more information, see *Repayments More Than Gross Benefits*, earlier.

Form SSA-1042S (Nonresident Aliens)

This form is for nonresident aliens. It contains the following four additional items that do not appear on Form SSA-1099.

Box 6—Rate of Tax

This is the rate at which tax was withheld from 85% of your benefits. If tax was withheld at more than one rate during the year, the percentage shown will be the tax rate in December 1996. The tax rate for most nonresident aliens is 30%. The figure “0” will appear in this box if you were not taxed in December or if you claimed a tax treaty exemption. Benefits received by residents of Egypt, Germany, Israel, Italy, Japan, Malta, Romania, and the United Kingdom are exempt from U.S. tax. See Publication 519 for more information on nonresident aliens.

Box 7—Amount of Tax Withheld

This is the amount of tax taken out of your social security checks. Tax is withheld for any month in which you were a nonresident alien (unless you claimed exemption under a tax treaty).

Box 8—Amount of Tax Refunded

An amount in this block shows any tax SSA refunded to you. When SSA withholds tax from your checks by mistake, they try to return it to you during the same calendar year. If SSA is unable to send the refund to you before the year ends, you must file a federal income tax return to get a refund of this tax.

Box 9—Net Tax Withheld During 1996

The figure in this box is the result of subtracting the figure in box 8 from the figure in box 7. This is the net amount of tax withheld from your benefits.

Form RRB-1099

This section explains the items shown on Form RRB-1099. If you received or repaid the social security equivalent benefit (SSEB) portion of tier 1 railroad retirement benefits or special guaranty benefits during 1996 you will receive Form RRB-1099, *Payments by the Railroad Retirement Board*. Each beneficiary will receive his or her own Form RRB-1099. If you receive benefits on more than one railroad retirement record, you may get more than one Form RRB-1099. **For those beneficiaries receiving Medicare, The Form RRB-1099, unlike the Form SSA-1099, does not have an item for the total Medicare premiums that were withheld from your railroad retirement benefits during 1996.**

Box 1—Claim No. and Payee Code

Your RRB claim number is a six- or nine-digit number preceded by an alphabetical prefix and is the number under which the portion of tier 1 railroad retirement benefits that is equivalent to social security benefits was paid. Your payee code is the number following your claim number and is used by the RRB to identify you under your claim number.

Box 2—Recipient’s Identification Number

This is the social security number, if known, of the person whose name is shown on Form RRB-1099.

Box 3—Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 1996

The figure shown in this box is the total amount of the SSEB portion of tier 1 or special guaranty benefits paid to you in 1996. It is the amount **before** any deductions were made for:

- Medicare premiums,
- Garnishment,
- Assignment,

UNFOLD TO SEE ALL TAX STATEMENT FORMS

PAYERS' NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		<h1>1996</h1>	PAYMENTS BY THE RAILROAD RETIREMENT BOARD
PAYER'S FEDERAL IDENTIFYING NO. 28-3314800			
1. Claim No. and Payee Code	3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 1996		COPY C - FOR REFINANCING PURPOSES <small>THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE</small>
2. Recipient's Identification Number	4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 1996		
Recipient's Name, Street Address, City, State, and Zip Code	5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 1996		
	6. Workers' Compensation Offset in 1996		
	7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 1996		
	8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 1994		
	9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 1994		
	10. Federal Income Tax Withheld		

FORM RRB-1099

DO NOT ATTACH TO YOUR INCOME TAX RETURN

- Recovery for an overpayment, including recovery for Railroad Unemployment Insurance Act benefits received while awaiting payment of your railroad retirement annuity, and
- Workers' compensation offset.

The figure in box 3 is the amount **after** any deductions were made for:

- Work deductions,
- Actuarial adjustment, and
- Annuity waiver.

The amount in box 3 also includes any benefits paid to you in 1996 that were for one or more earlier years after 1983. If any benefits were paid for 1995, that amount is shown in box 7. If any benefits were paid for 1994, that amount is shown in box 8. If any benefits were paid for 1993 or any earlier year dating back to 1984, that amount is shown in box 9. The amount in box 3 does not include payments you received in 1996 that were for months prior to December 1983 because they are not taxable. The amount you received in January 1996 for December 1995 is included in box 3.

Example 1. For the period January through March 1996, you received \$300 (\$100 x 3 months) Railroad Unemployment Insurance. You were eligible for the SSEB portion of tier 1 benefits of \$509 a month beginning January 1, 1996, but you did not receive your first payment until April 1996. The payment you received in April was for the first three months of 1996. However, since you received unemployment benefits during the same period, \$300 was deducted from your initial benefit check.

Instead of receiving \$1,527 (\$509 x 3 months), you received \$1,227 (\$1,527 — \$300). For the months of April through November, you were paid your regular monthly SSEB portion of tier 1 benefits of \$509. Box 3 of your Form RRB-1099 will show \$5,599 (\$509 x 11 months) as the gross SSEB portion of tier 1 benefits paid to you in 1996, even though you did not actually receive that amount. This is because box 3 shows the gross amount of your benefits **before** any reductions were made for the unemployment benefits paid to you.

Example 2. You received tier 1 benefits of \$600 a month for the months of December 1995 through May 1996. Your \$600 monthly tier 1 benefit consists of an SSEB portion of \$250 and a non social security equivalent benefit (NSSEB) portion of \$350. Beginning in June 1996, you became entitled to Medicare, and \$42.50 a month was deducted from your benefit checks for Medicare premiums. Therefore, the tier 1 payments you received for the rest of the year were \$557.50 (\$600 — \$42.50) a month. Box 3 of your Form RRB-1099 will show the gross SSEB portion of tier 1 benefits of \$3,000 (\$250 x 12 months), because it is the gross SSEB amount **before** deductions for your Medicare premiums. The remainder of your tier 1 payments, the NSSEB portion of \$4,200 (\$350 x 12 months), will be shown on the Form RRB-1099-R that you will receive along with your Form RRB-1099. The \$4,200 is the gross NSSEB amount **before** deductions for your Medicare premiums. For more information on Form RRB-1099-R, see Publication 575.

Box 4—Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 1996

The figure shown in this box is the total SSEB portion of tier 1 benefits you repaid to the RRB in 1996. You may have repaid a benefit by returning a check, making a cash refund, or having an amount withheld from your payments. In addition, an amount may have been withheld from your benefits to recover the SSEB overpayment incurred by someone else who is also receiving benefits under your claim number. Also, an amount may have been withheld from another benefit, such as a social security benefit, to recover an SSEB overpayment you received.

The amount in box 4 also includes any SSEB benefits you repaid in 1996 that were for one or more years before 1996. All tier 1 repayments for years before 1986 are treated entirely as SSEB benefits.

Example 1. You returned to work for your last railroad employer for the months of June through August 1996. The SSEB portion of your tier 1 benefit was \$450 for each of those months. Since you are not allowed to receive benefits for any month you returned to railroad service, you have to make a repayment to the RRB. You returned the benefit payment for August 1996 and made a full cash refund to the RRB for the June and July benefits you received. Box 4 of your Form RRB-1099 will show \$1,350 ($\450×3 months) as the SSEB portion of tier 1 benefits you repaid to the RRB.

Example 2. From January through April 1996 you were overpaid \$800 in the SSEB portion of tier 1 benefits. From May through August 1996, \$200 a month was withheld from your benefit payment to fully recover the \$800 overpayment. Box 4 of your Form RRB-1099 will show \$800 ($\200×4 months) as the SSEB portion of tier 1 benefits you repaid to the RRB.

Example 3. As a retired railroad employee, you have been receiving a railroad retirement annuity, including an SSEB portion of tier 1 benefits, since 1995. You also became entitled to, and received, a social security benefit of \$300 a month beginning May 1, 1996. SSA later authorized the RRB to pay that benefit. In August 1996, the RRB began paying your social security benefit to you and reduced the SSEB portion of your monthly tier 1 benefit by \$300. Social security benefits of \$900 covering the period May through July 1996 were kept by the RRB to offset your \$900 SSEB overpayment for that same period. Box 4 of your Form RRB-1099 will show \$900 as the SSEB portion of tier 1 benefits you repaid to the RRB. (Note: SSA will send you Form SSA-1099, which will include the \$900 in benefits paid by them.)

Box 5—Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 1996

The figure shown in this box is the net amount of the SSEB portion of tier 1 benefits paid to you in 1996. It is the result of subtracting the amount in box 4 from the amount in box 3. Use this amount to determine if any of your benefits are taxable. See *Are Any of Your Benefits*

Taxable for information on how to figure your taxable amount, if any.

If there are parentheses around the figure in box 5, it means that the figure in box 4 is larger than the figure in box 3. This is a negative figure and means you repaid more money than you received in 1996. For more information, see *Repayments More Than Gross Benefits*, earlier.

Box 6—Workers' Compensation Offset in 1996

The figure shown in this box is the amount you received in workers' compensation benefits during the year that was used to offset the full amount of your tier 1 payments. The SSEB portions of your tier 1 benefits shown in boxes 3 and 5 include the amounts you received from workers' compensation. Your workers' compensation amount is shown in this box separately only for your information. If you did not receive workers' compensation benefits, box 6 is blank.

Example. Your tier 1 benefit of \$450 a month is reduced to \$400 because of a \$50-a-month workers' compensation offset. Boxes 3 and 5 of your Form RRB-1099 will show \$5,400 ($\450×12 months) as the SSEB portion of tier 1 benefits paid to you by the RRB. The \$5,400 is the amount before any deductions were made for the workers' compensation offset. Box 4 will show zero because you did not make any repayments during the year. Box 6 of your form will show \$600 ($\50 workers' compensation $\times 12$ months). In figuring if any of your benefits are taxable, you must use \$5,400 as the amount of the SSEB portion of tier 1 benefits paid to you.

Boxes 7 and 8—Social Security Equivalent Benefit Portion of Tier 1 Paid for 1995 or 1994

The figure shown in each applicable box is the amount of SSEB benefits paid to you in 1996 that was for 1995 or 1994. This amount is included in the amount shown in box 3.

Box 9—Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 1994

The figure shown in this box is the amount of SSEB benefits paid to you in 1996 that was for 1993 and earlier years. This amount is included in the amount shown in box 3. The entire tier 1 benefit paid before 1986 is treated as an SSEB benefit.

If you believe the amount in box 9 covers benefits for more than one year, you can request a breakdown of the amount by year. Write to:

U.S. Railroad Retirement Board
Attn: TAX-IAS — 7th Floor
844 N. Rush Street
Chicago, IL 60611-2092

Box 10—Federal Tax Withheld

The figure shown in this box is the total amount of U.S. federal income tax withheld on your tier 1 SSEB payments. Include this amount on your income tax return as tax withheld.



If you requested withholding in excess of your monthly NSSEB, tier 2 benefit, vested dual benefit, and supplemental annuity payments you received, the additional withholding will be shown in this box. In this situation, the amount of withholding equal to those benefits will be shown in box 9 on Form RRB-1099-R.

Form RRB-1042S (Nonresident Aliens)

This form is for nonresident aliens. It contains the following three additional items that do not appear on Form RRB-1099.

Box 10—Country

The country where you maintain your legal residence is shown in this box. If you maintained legal residence in more than one country during the year, you will receive a separate Form RRB-1042S for each country of legal residence during the year.

Box 11—Rate of Tax

The figure in this box is the rate at which tax was withheld from 85% of the SSEB portion of tier 1 payments you received. If tax was withheld at more than one rate during the year, you will receive a separate Form RRB-1042S for each rate change during the year. The tax rate for most nonresident aliens is 30%. The figure "0%" will appear in this box if you claimed a tax treaty exemption. Benefits received by residents of Egypt, Germany, Israel, Italy, Japan, Malta, Romania, and the United Kingdom are exempt from U.S. tax if a treaty exemption is claimed. See Publication 519 for more information on nonresident aliens.

Box 12—Federal Tax Withheld

The figure in this box is the total amount of U.S. federal income tax withheld from the SSEB portion of tier 1 benefit payments you received in 1996. Tax is withheld for any month in which you were a nonresident alien (unless you claimed exemption under a tax treaty).

How To Get More Information

You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details. If space permitted, this information is at the end of this publication.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

