



Frequently Asked Questions about Taxes and Social Security Disability Benefits

January 2020

QUESTION: I'm receiving services from my local Work Incentives Planning and Assistance (WIPA) project – can my CWIC help me with tax issues related to my disability benefits?

Your CWIC can offer you some very general information about certain tax issues related to Social Security disability benefits, but the assistance provided will be extremely limited. CWICs are not qualified tax professionals and aren't trained to assist with tax issues – even those related to Social Security disability benefits. Your CWIC will probably refer you to either the IRS or a local tax professional if you have questions requiring a response beyond the information contained in this document.

QUESTION: Are my disability benefits taxable?

Well, that depends on which benefits you get and how much your total income is. If you receive Supplemental Security Income (SSI), you will owe no federal or state taxes on this benefit. If you have other forms of income in addition to your SSI (such as wages) you may owe taxes on that income.

If you receive a Title II Disability Benefit (SSDI, CDB or DWB), you may have to pay taxes on your benefits, depending on how much your total income is. No one pays taxes on more than 85% of his/her Social Security benefits based on current IRS rules. Your total income includes your Social Security benefits and any other income you received such as wages, interest income, rental income, etc. Social Security reports that about one-third of their current beneficiaries pay taxes on their disability benefits. Here are the situations in which taxes may be due:

- If you file a federal tax return as an “individual” and your total income is between \$25,000 and \$34,000, you may have to pay taxes on up to 50% your benefits. If your income is more than \$34,000, up to 85% of your benefits may be taxable.
- If you file a “joint return”, and you and your spouse have a combined income that is between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of

your benefits. If your combined income is more than \$44,000, up to 85% of your benefits may be taxable.

- If you are married and file a separate tax return, you will probably pay taxes on your benefits.

Each January you will receive a *Social Security Benefit Statement* (Form SSA-1099) showing the amount of benefits you received in the previous calendar year. You can use this benefit statement when you complete your federal income tax return to find out if your benefits are subject to tax. Beneficiaries who are unsure about whether or not they have to pay taxes should contact the Internal Revenue Service (IRS) or seek the services of a qualified tax professional.

QUESTION: I'm getting income tax refunds this year. Do I need to report this to Social Security?

No, you don't need to report this as income no matter what type of Social Security benefits you receive.

The SSI program specifically disregards Federal and/or state income tax refunds as a form of income. This is because SSI counts your gross income when it's received so your SSI check has already been adjusted without regard to any taxes withheld.

NOTE: Social security doesn't count Income tax refunds as income for SSI purposes even if these taxes were excluded from countable income as Blind Work Expenses (BWEs) for a beneficiary designated as statutorily blind. For more information see [POMS SI 00815.270 - Income Tax Refunds](https://secure.ssa.gov/apps10/poms.nsf/lnx/0500815270) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0500815270>).

Prior to January 1, 2010, the SSI program counted any tax refunds which were retained on the first day of the month after they were received as a resource. If by retaining the refund, your countable resources exceeded the limit (\$2,000 for an individual or \$3,000 for a couple) you could have become ineligible for SSI and Medicaid. On December 17, 2010, the President signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, or Tax Relief Act. This law excluded all federal tax refund payments received on or after January 1, 2010 from counting as resources for a period of 12 months. The 12-month period begins the month following the month of receipt of the refund or payment. You can read about this change in [POMS SI 01130.676 - Federal Tax Refunds and Advanced Tax Credits](https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676>).

In the Title II disability program (SSDI, CDB or DWB), Social Security is only interested in earned income – money you receive in exchange for work performed. Since the Title II programs also base their determinations on gross countable earned income, the money you are refunded has already been accounted for. Social Security doesn't consider income tax returns to be additional income. In addition, since the Title II disability benefits program is a form of

insurance which is not means-tested in any way, resources are never considered. Putting your refund in the bank will have no effect on your benefits.

QUESTION: I will be getting an Earned Income Tax Credit (EITC) payment this year. Is this something I need to report to Social Security?

The Earned Income Tax Credit (EITC) is a special tax credit that reduces the federal tax liability of certain low income working taxpayers. This tax credit sometimes results in a payment to the taxpayer, either as an advance from an employer or as a refund from IRS. For more detailed information about the EITC go to the IRS website and refer to [Earned Income Tax Credit \(EITC\) – More In Credits & Deductions](https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit) (<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit>)

Social Security doesn't count the Earned Income Tax Credit (EITC) as income for either the SSI program or the Title II disability benefits and doesn't these credits don't need to be reported to Social Security. In addition, for the SSI program, any unspent federal tax refund or payment made by an employer related to an EITC that you received on or after March 2, 2004 up through December 31, 2009 is excluded from resources for the 9 calendar months following the month the refund or payment is received.

On December 17, 2010, the President signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, or Tax Relief Act. This law excludes all Earned Income Tax Credit (EITC) payments received on or after January 1, 2010 from counting as income for SSI purposes and from counting as resources for a period of 12 months. The 12-month period begins the month following the month of receipt of the refund or payment. You can read about this important change is documented in [POMS SI 01130.676 - Federal Tax Refunds and Advanced Tax Credits](https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676>).

NOTE: These exact same rules apply to the Child Tax Credit (CTC). The CTC is a special refundable federal tax credit that is available to certain low income taxpayers with earned income. They must be parents, step-parents, grandparents or foster parents with a dependent child. This Child Tax Credit may provide a refund to individuals even if they do not owe any tax. The CTC may result in a tax refund payment to the taxpayer from IRS beginning with tax year 2001. There is no advance payment with the CTC.

For more information:

Refer to [POMS SI 01130.060 - Federal Tax Refunds and Advanced Tax Credits for SSI Income Purposes](https://secure.ssa.gov/apps10/poms.nsf/lnx/0500830060) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0500830060>) and

[POMS SI 01130.676 Federal Tax Refunds and Advanced Tax Credits for SSI Resources](https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0501130676>)

QUESTION: Is it possible for the IRS to take some of my disability benefit check if I owe money for delinquent taxes?

Yes, this is possible – but only with Title II disability benefits (SSDI, CDB or DWB). The SSI program doesn't permit garnishment, attachment, or levies against payments for any reason since the assumption is that persons receiving SSI have very little income and few if any resources. Effective July 1, 1989, the Taxpayer's Bill of Rights (P.L. 100-647) specifically prohibits IRS levies against SSI payments.

In the Title II disability program (SSDI, CDB and DWB), the IRS may take a portion of your monthly benefit payment to recover delinquent taxes. IRC Section 6331 states that individuals and businesses with delinquent tax liabilities may be subject to a continuous 15% levy against funds owed them by the federal government (including Social Security benefits) beginning in July 2000. To do this, the IRS has to file something called a "Notice of Levy" with Social Security. A Notice of Levy is continuous until the IRS tells Social Security to stop levying. In processing levies, Social Security is merely acting to assist IRS in its duty to collect delinquent taxes. Except for seeing that the processing requirements are met, Social Security has neither the authority nor obligation to question the correctness of an IRS levy.

If Social Security receives a levy for an individual who is receiving benefits on behalf of someone else as a representative payee, they will return it to the IRS. Social Security can only levy an individual's own benefits.

A taxpayer whose Title II disability payments are subject to levy may contact the IRS to resolve the issue by paying the tax bill, entering into an installment agreement, or proposing an offer in compromise. For more information about Social Security's role in processing IRS levies, refer to POMS GN 02410.100 - Internal Revenue Service (IRS) Levy.

QUESTION: Can I have taxes withheld from my Social Security disability benefits?

Yes, this is possible. Public Law No.103-465 amends the Internal Revenue Code (IRC) to allow individuals to request that monies be withheld from certain federal payments to satisfy their federal income tax liability. An amendment to Section 207 of the Act allows this withholding from Title II benefits. Social Security refers to this process as "Voluntary Tax Withholding" or VTW. All Title II beneficiaries (adults as well as children) are eligible for VTW. However, only the beneficiary or his/her representative payee can request VTW. Voluntary Tax Withholding does NOT apply to SSI payments and there is no way to have state income taxes withheld from any Social Security benefit.

Beneficiaries (or their representative payees) need to complete and sign IRS form W-4V (Voluntary Withholding Request) for a VTW request to be valid. This includes a request to stop

and as well as start VTW. The withholding rates set by IRS are 7%, 10%, 12%, and 22%. Federal law only allows Social Security to apply these rates. No other percentages or flat dollar amounts are acceptable. Beneficiaries can start or stop VTW at any time. For more information on VTW processes, refer to [POMS GN 02410.015 - Voluntary Tax Withholding \(VTW\)](https://secure.ssa.gov/apps10/poms.nsf/lnx/0202410015) (<https://secure.ssa.gov/apps10/poms.nsf/lnx/0202410015>).

QUESTION: I filed my tax return for the most recently completed tax year and I was supposed to get a refund. The IRS sent me a letter telling me that my refund was going to go to the Social Security Administration – what happened?

The IRS is permitted by federal law to withhold all or part of any federal income tax refund you are due to satisfy debts you may owe to certain federal agencies. If you owe delinquent federal taxes, IRS will withhold the balance due from your refund. If your refund exceeds the amount of your delinquent federal taxes, the Department of Treasury's Financial Management Service (FMS) will then deduct the amounts for any delinquent state income taxes, back child support, or delinquent non-tax federal debts such as student loans, amounts owed to Social Security for overpayment of benefits etc., from the payment. Social Security refers to this process as a “Tax Refund Offset” or TRO.

You will receive a letter explaining any adjustments the IRS made to your refund amount and direct deposit(s). You will receive a separate letter from FMS explaining any offset amount, the agency receiving the payment, the address and telephone number of the agency, and amount of your refund/direct deposit that was offset. If you dispute the debt, you should contact the agency shown on the notice, not the IRS, since the IRS has no information about the validity of the debt.

If you made arrangements with Social Security to repay money that you owe them and Social Security is already withholding some of your disability payment to recover the overpayment, you will not be subject to a tax refund offset.

QUESTION: If my student loan or consumer debt is forgiven, will this affect my Social Security disability benefits? Will there be any tax implications?

In some cases, a CWIC may work with a beneficiary who is deeply in debt. In an effort to help the beneficiary address this problem, CWICs often refer beneficiaries to bankruptcy attorneys, the Department of Education Student Loan Discharge website, or Community Credit Counseling services.

Social Security doesn't consider forgiven debt as income for Title II or SSI purposes. The IRS, however, does consider some, but not all, “forgiven” debt to be income. Specifically:

1. Bankruptcy does not create taxable income;
2. Forgiveness of Student loans can create taxable income; and
3. Credit counseling that reduces a debt can have tax consequences.

If this situation arises, CWICs should advise beneficiaries that bankruptcy will not affect their Social Security or SSI benefits, but some debt forgiveness may affect their taxes. CWICs should also assist beneficiaries to access professional tax advice in order to avoid surprises when tax time comes. You can find more information on this topic at:

[Publication 4681 \(2019\), Canceled Debts, Foreclosures, Repossessions, and Abandonments](https://www.irs.gov/publications/p4681/ch01.html)
(<https://www.irs.gov/publications/p4681/ch01.html>)

[Student Debt Relief – Total and Permanent Disability Discharge](http://www.studentdebtrelief.us/forgiveness/total-and-permanent-disability-discharge/)
(<http://www.studentdebtrelief.us/forgiveness/total-and-permanent-disability-discharge/>)

QUESTION: Where can I get free help with filing my taxes?

The Internal Revenue Service offers taxpayers a wide range of free tax help services, many of them available online or by smartphone, designed to help people easily and quickly meet their tax-filing and tax-payment responsibilities.

Free tax preparation is available through more than 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites in communities across the nation. Taxpayers should check for the VITA site location closest to them by calling 800-906-9887. Taxpayers may also call the AARP Tax-Aide Program — the IRS’s largest TCE partner — at 888-227-7669 to find a convenient location.

For more information:

You can find a [complete listing of available tax assistance at the IRS website](https://www.irs.gov/uac/free-tax-help-available-from-the-irs-1)
(<https://www.irs.gov/uac/free-tax-help-available-from-the-irs-1>)

QUESTION: Where can I get more information about tax issues that affect individuals with disabilities?

For additional information about [tax issues related to individuals with disabilities, please refer to the IRS website](http://www.irs.gov/uac/Disability-Related-Products) (<http://www.irs.gov/uac/Disability-Related-Products>). This page contains a collection of IRS tax forms and publications that provide information of interest to persons with disabilities. You can find more information at:

[IRS More Information for People with Disabilities – More in Our Agency](http://www.irs.gov/Individuals/More-Information-for-People-with-Disabilities)
(<http://www.irs.gov/Individuals/More-Information-for-People-with-Disabilities>)

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