

I hope everyone had a good week. A healthy week. We had something similar to the creeping crud, and a touch of the yucky on the other one. It's horrible. Clorox wipes and Lysol spray.

Well, I would like to talk about the taxability of SSDI and Social Security payments. I have had two clients so far with lump sum payments for SSDI, and two clients who no longer need to file, since their only income is Social Security.

The lump sum payment for Social Security Disability works like this: You go to court, fight to prove that you deserve the payment and then if you prevail, the amount that you get paid is retroactive. You get a very large payment. Cool! Finally, there is money again. You pay the attorney out of the settlement (and hopefully qualify to deduct that amount on your tax return). Life is good. Until you go to get your taxes done. Yep, the tax bill is ugly and out of control. You always heard that the disability was tax free! It is, up to a certain percentage. I won't bore you more with those details. If you have a spouse who has income or self employment income, depending on the amount that there is, some of your payments will be taxable. The lump sum will ALWAYS be taxable. My clients were great by being proactive. We had time to do mock up a return and see how much might be taxable. They both sent in some estimated payments and were prepared. Call a tax pro or your advisor if you are seeing yourself in this position.

Social Security (regular for being of correct age) is taxable to the extent of the calculations and how much other income is there. This includes W-2 wages, interest and dividend income, the amount of self employment or K-1 income and pension or IRA distributions. Again, this takes planning to see if the withholding needs to be made on the Social Security.

If there is no other income, or very little interest or dividends, and the Social Security is low enough- Congratulations. You have achieved the dream of many: You don't need to file income taxes any longer. You still want to meet with your Tax Pro or advisor to make sure.

Please don't make the mistake of listening to your brother, sister in law, Bob down the street or other people that "know someone who..." You cannot compare apples and bananas.

I will always answer your questions you may have. I have answered by email and by phone. Give me a shout at kristhetaxlady@gmail.com. I would love to use your questions in an article.

Next week: what to do when the letter that starts with Dear Tax Payer, your return has been selected for review... or you get any other letters from the IRS