

Are Social Security Disability Benefits Taxable?

They might be, depending on two things: the type of disability benefit you get and our overall income.

Social Security operates **two benefit programs** for people with disabilities: **Social Security Disability Insurance (SSDI)** and **Supplemental Security Income (SSI)**.

SSI is cash assistance for disabled, blind and older people with low incomes and limited financial assets. Social Security administers the program, but money from the U.S. Treasury, not **Social Security taxes**, pays for it. SSI payments in 2021 for an individual are \$794 a month from the federal government, and \$1,191 for a married couple. Those benefits are not subject to income tax.

However, SSDI is potentially taxable using the same set of rules as Social Security retirement, **family** and **survivor benefits**.

Whether you pay taxes on SSDI benefits depends on what the Internal Revenue Service calls your “provisional income.” That is the sum of your adjusted gross income, tax-exempt interest income and half of your Social Security benefits for a given year. Here is how it works:

- If those three figures add up to less than \$25,000 for an individual taxpayer or \$32,000 for a married couple filing jointly, you won’t pay taxes on your SSDI.
- If your provisional income is \$25,000 to \$34,000 for an individual or \$32,000 to \$44,000 for a couple filing jointly, up to 50 percent of your benefits are subject to taxation.
- If it is more than \$34,000 for an individual or \$44,000 for a couple, you are taxed on 50 percent to 85 percent of your benefits.

Say you are a single filer receiving the average SSDI benefit of \$1,277 a month in 2021. You have a part-time job that pays \$15,000 a year and receive \$5,000 from investments and dividends. Your provisional income is \$27,662, half of your Social Security benefits plus \$20,000 in other income.

You are in the category of owing taxes on up to 50 percent of your benefits, although in this example it would be considerably less: Plugging these numbers into the IRS’ online tax tool, the **Interactive Tax Assistant (ITA)**, indicates that \$1,331 of your benefits would

be subject to federal income tax, at the same **tax rate** – in this case, you are in the 12 percent bracket.

As a practical matter, many SSDI recipients don't face this issue because their overall income is too low to reach the tax threshold.

To determine if your SSDI is taxable, enter your benefit, income and marital information into the IRS' online tax tool or fill out Worksheet 1, "Figuring Your Taxable Benefits," in IRS Publication 915.

Keep in mind...

- As with other types of income, you can make quarterly estimated tax payments to the IRS or elect to **have federal taxes withheld** from your Social Security payments to avoid a larger bill at tax time.
- Thirteen states, including Connecticut and Rhode Island, tax some or all disability benefits.
- **Back pay** – past-due disability benefits you can get in a lump sum from Social Security if you face a lengthy delay in getting approval for your claim—count toward provisional income for the year in which you receive them. That could bump your income over the threshold for taxation for benefits. If this happens, the IRS offers alternative calculation methods that may reduce the tax impact.