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Social Security and Equivalent Railroad Retirement Benefits

For use in preparing
2004 Returns



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Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

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).

Social security benefits include monthly 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 that a railroad employee or beneficiary would have been entitled to receive under the social security system. They are commonly called the social security equivalent benefit (SSEB) portion of tier 1 benefits.

If you received these benefits during 2004, you should have received a Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Payments by the Railroad Retirement Board, (Form SSA-1042S, Social Security Benefit Statement, or Form RRB-1042S, Statement for Nonresident Alien Recipients of: Payments by the Railroad Retirement Board, if you are a nonresident alien) showing the amount.

Note. When the term “benefits” is used in this publication, it applies to both social security benefits and the SSEB portion of tier 1 railroad retirement benefits.

What is covered in this publication. This publication covers the following topics:

- Whether any of your benefits are taxable,
- How much is taxable,
- How to report taxable benefits,
- How to treat lump-sum benefit payments, and
- Deductions related to your benefits, including a deduction you can claim if your repayments are more than your gross benefits.

The *Appendix* at the end of this publication explains items shown on your Form SSA-1099, SSA-1042S, RRB-1099, or RRB-1042S.

What is not covered in this publication. This publication does not cover the tax rules for the following railroad retirement benefits:

- Non-social security equivalent benefit (NSSEB) portion of tier 1 benefits,
- Tier 2 benefits,
- Vested dual benefits, and
- Supplemental annuity benefits.

For information on these taxable pension benefits, see Publication 575, Pension and Annuity Income.

This publication also does not cover the tax rules for foreign social security benefits. These benefits are taxable as annuities, unless they are exempt from U.S. tax or treated as a U.S. social security benefit under a tax treaty.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

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Tax questions. If you have a tax question, visit www.irs.gov or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

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shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Publication

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

Forms (and Instructions)

- 1040-ES** Estimated Tax for Individuals
- SSA-1099** Social Security Benefit Statement
- SSA-1042S** Social Security Benefit Statement
- RRB-1099** Payments by the Railroad Retirement Board
- RRB-1042S** Statement for Nonresident Alien Recipients of: Payments by the Railroad Retirement Board
- W-4V** Voluntary Withholding Request

See *How To Get Tax Help* 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 may be taxable, compare the base amount (explained later) for your filing status with the total of:

1. One-half of your benefits, plus
2. All your other income, including tax-exempt interest.

When making this comparison, do not reduce your other income by any exclusions for:

- Interest from qualified U.S. savings bonds,
- Employer-provided adoption benefits,
- Foreign earned income or foreign housing, or
- Income earned by bona fide residents of American Samoa or Puerto Rico.




The SSA issues Form SSA-1099 and Form SSA-1042S. The RRB issues Form RRB-1099 and Form RRB-1042S. These forms (tax statements) report the amounts paid and repaid, and taxes withheld for a tax year. You may receive more than one of these forms for the same tax year. You should add the amounts shown on all forms you receive from the SSA and/or RRB for the same tax year to determine the "total" amounts paid and repaid, and taxes withheld for that tax

year. See Appendix, at the end of this publication for more information.

Each original Form RRB-1099 is valid unless it has been corrected. The RRB will issue a corrected Form RRB-1099 if there is an error in the original. A corrected Form RRB-1099 is indicated as "CORRECTED" and replaces the corresponding original Form RRB-1099. You must use the latest corrected Form RRB-1099 you received and any original Form RRB-1099 that the RRB has not corrected when you determine what amounts to report on your tax return.

Figuring total income. To figure the total of one-half of your benefits plus your other income, use the worksheet later in this discussion. If the total is more than your base amount, part of your benefits may be taxable.


If you are married and file a joint return for 2004, you and your spouse must combine your incomes and your benefits to figure whether 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 to figure whether any of your benefits are taxable.

 **TIP** If the only income you received during 2004 was your social security or the SSEB portion of 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.

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 2004,
- \$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 2004.

Worksheet.

 You can use the following worksheet to figure the amount of income to compare with your base amount. This is a quick way to check whether some of your benefits may be taxable.

-
- 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 2004, for 2004 and earlier years. (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 income (such as interest on municipal bonds) plus any exclusions from income (listed earlier). 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 equals or 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 may be taxable. You then need to complete Worksheet 1, shown later.

Example. You and your spouse (both over 65) are filing a joint return for 2004 and you both received social security benefits during the year. In January 2005, you received a Form SSA-1099 showing net benefits of \$7,500 in box 5. Your spouse received a Form SSA-1099 showing net benefits of \$3,500 in box 5. You also received a taxable pension of \$19,000 and interest income of \$500. You did not have any tax-exempt interest income. Your benefits are not taxable for 2004 because your income, as figured in the following worksheet, is not more than your base amount (\$32,000) for married filing jointly.

Even though none of your benefits are taxable, you must file a return for 2004 because your taxable gross income (\$19,500) exceeds the minimum filing requirement amount for your filing status.

-
- 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 2004, for 2004 and earlier years. (If you received more than one form, combine the amounts from box 5 and write in the total.) A. \$11,000
- 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. 5,500
- C. Add your taxable pensions, wages, interest, dividends, and other taxable income and write in the total C. 19,500
- D. Write in any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income (listed earlier). D. -0-
- E. Add lines B, C, and D and write in the total E. \$25,000

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or 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 may be taxable. You then need to complete Worksheet 1, shown later.

Who is taxed. The person who has the legal right to receive the benefits must determine whether 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 part of the benefits to see whether any benefits are taxable to you. One-half of the part that belongs to your child must be added to your child's other income to see whether any of those benefits are taxable to your child.

Repayment of benefits. Any repayment of benefits you made during 2004 must be subtracted from the gross benefits you received in 2004. It does not matter whether the repayment was for a benefit you received in 2004 or in

an earlier year. If you repaid more than the gross benefits you received in 2004, see *Repayments More Than Gross Benefits*, later.

Your gross benefits are shown in box 3 of Form SSA-1099 or Form RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2004 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

Example. In 2003, you received \$3,000 in social security benefits, and in 2004 you received \$2,700. In March 2004, SSA notified you that you should have received only \$2,500 in benefits in 2003. During 2004, you repaid \$500 to SSA. The Form SSA-1099 you received for 2004 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).

Tax withholding and estimated tax. You can choose to have federal income tax withheld from your social security benefits and/or the SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this, you must complete a Form W-4V. You can choose withholding at 7%, 10%, 15%, or 25% of your total benefit payment.

If you do not choose to have income tax withheld, 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.

U.S. citizens residing abroad. U.S. citizens who reside in the following countries are exempt from U.S. tax on their benefits.

- Canada.
- Egypt.
- Germany.
- Ireland.
- Israel.
- Italy. (You must also be a citizen of Italy for the exemption to apply.)
- Romania.
- United Kingdom (new treaty).

The SSA will not withhold U.S. tax from your benefits if you are a U.S. citizen.

The RRB will withhold U.S. tax from your benefits unless you file Form RRB-1001, Nonresident Questionnaire, with the RRB to provide citizenship and residency information. If you do not file Form RRB-1001, the RRB will consider you a nonresident alien and withhold tax from your railroad retirement benefits at a 30% rate. Contact the RRB to get this form.

Lawful permanent residents. For U.S. income tax purposes, lawful permanent residents (green card holders) are considered resident aliens until their lawful permanent resident status under the immigration laws is either taken away or is administratively or judicially determined to have been abandoned. Social security benefits paid to a green card holder are not subject to 30% withholding. If you are a

green card holder and tax was withheld in error on your social security benefits because you have a foreign address, the withholding tax is refundable by the Social Security Administration (SSA) or the IRS. SSA will refund taxes erroneously withheld if the refund can be processed during the same calendar year in which the tax was withheld. If SSA cannot refund the taxes withheld, you must file a Form 1040 or 1040A with the Internal Revenue Service Center, Philadelphia, PA 19255 to determine if you are entitled to a refund. You must also attach the following information to your Form 1040 or 1040A:

- A copy of the Form SSA-1042S, Social Security Benefit Statement,
- A copy of the “green card,” and
- A signed declaration that includes the following statements:

The SSA should not have withheld federal income tax from my social security benefits because I am a U.S. lawful permanent resident and my green card has been neither revoked nor administratively or judicially determined to have been abandoned. I am filing a U.S. income tax return for the tax year as a resident alien reporting all of my worldwide income. I have not claimed benefits for the tax year under an income tax treaty as a nonresident alien.

Nonresident aliens. A nonresident alien is an individual who is not a citizen or resident of the United States. If you are a nonresident alien, the rules discussed in this publication do not apply to you. Instead, 85% of your benefits are taxed at a 30% rate, unless exempt (or subject to a lower rate) 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 of tax withheld from your benefits.

Under tax treaties with the following countries, residents of these countries are exempt from U.S. tax on their benefits.

- Canada.
- Egypt.
- Germany.
- Ireland.
- Israel.
- Italy.
- Japan.
- Romania.
- United Kingdom.

Under a treaty with India, benefits paid to individuals who are both residents and nationals of India are exempt from U.S. tax if the benefits are for services performed for the United States, its subdivisions, or local government authorities.

If you are a resident of Switzerland, your total benefit amount will be taxed at a 15% rate.

For more information on whether you are a nonresident alien, get Publication 519, U.S. Tax Guide for Aliens.

Exemption from withholding. If your social security benefits are exempt from tax because you are a resident of one of the treaty countries listed, the SSA will not withhold U.S. tax from your benefits.

If your railroad retirement benefits are exempt from tax because you are a resident of one of the treaty countries listed, you can claim an exemption from withholding by filing Form RRB-1001 with the RRB. Contact the RRB to get this form.

Canadian or German social security benefits paid to U.S. residents. Under income tax treaties with Canada and Germany, social security benefits paid by those countries to U.S. residents are treated for U.S. income tax purposes as if they were paid under the social security legislation of the United States. If you receive social security benefits from Canada or Germany, include them on line 1 of Worksheet 1, shown later.

How To Report Your Benefits

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

Reporting 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. If you are married filing separately and you lived apart from your spouse for all of 2004, also enter "D" to the right of the word "benefits" on line 20a.

Reporting on Form 1040A. Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 14a and the taxable part on line 14b. If you are married filing separately and you lived apart from your spouse for all of 2004, also enter "D" to the right of the word "benefits" on line 14a.

Benefits not taxable. 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 2004, make the following entries. On Form 1040, enter "D" to the right of the word "benefits" on line 20a and "-0-" on line 20b. On Form 1040A, enter "D" to the right of the word "benefits" on line 14a and "-0-" on line 14b.

How Much Is Taxable?

If part of your benefits are 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. Generally, up to 50% of your benefits will be taxable. However, up to 85% of your benefits can be taxable if either 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).
2. You are married filing separately and lived with your spouse at any time during 2004.

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 any of the following situations applies to you.

1. You contributed to a traditional individual retirement arrangement (IRA) and 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 take an exclusion for interest from qualified U.S. savings bonds (Form 8815), for adoption benefits (Form 8839), 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.

Example 1.

George White is single and files Form 1040 for 2004. 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 2005 that shows his net social security benefits of \$5,980 in box 5. To figure his taxable benefits, George completes 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 benefits of \$2,990.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records

<p>Before you begin: Is your filing status <i>Married filing separately</i>? </p> <p>No. Go to line 1 below.</p> <p>Yes. Did you live apart from your spouse all year?</p> <p>No. Go to line 1 below.</p> <p>Yes. Do the following if you file:</p> <p>Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.</p> <p>Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.</p>	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1. <u>\$5,980</u>
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.	
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, 9a, 10-14, 15b, 16b, 17-19, and 21	
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13	3. <u>28,990</u>
4. Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Qualified U.S. savings bond interest (Form 8815, line 14)	
• Adoption benefits (Form 8839, line 30)	
• 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	
Form 1040A filers: Enter the total of any exclusions for:	
• Qualified U.S. savings bond interest (Form 8815, line 14)	
• Adoption benefits (Form 8839, line 30)	4. <u>-0-</u>
5. Add lines 2, 3, and 4	5. <u>31,980</u>
6. Form 1040 filers: Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27.	
Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19	6. <u>-0-</u>
7. Is the amount on line 6 less than the amount on line 5?	
No.  None of your social security benefits are taxable.	
Yes. Subtract line 6 from line 5	7. <u>31,980</u>
8. If you are:	
• Married filing jointly, enter \$32,000	
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004, enter \$25,000	8. <u>25,000</u>
Note: If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.	
9. Is the amount on line 8 less than the amount on line 7?	
No.  None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.	
Yes. Subtract line 8 from line 7	9. <u>6,980</u>
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004	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>
• Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a.	
• Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.	
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.	

Example 2.

Ray and Alice Hopkins file a joint return on Form 1040A for 2004. Ray is retired and received a fully taxable pension of \$15,500. He also received social security benefits and his Form SSA-1099 for 2004 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 with 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 14a and 14b of their Form 1040A blank.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records

Before you begin: Is your filing status *Married filing separately*?



No. Go to line 1 below.

Yes. Did you live apart from your spouse all year?

No. Go to line 1 below.

Yes. Do the following if you file:

Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.

Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 **1. \$5,600**
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.
2. Enter one-half of line 1 **2. 2,800**
3. Enter the total of the amounts from:
Form 1040: Lines 7, 8a, 8b, 9a, 10-14, 15b, 16b, 17-19, and 21
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13 **3. 29,750**
4. **Form 1040 filers:** Enter the total of any exclusions/adjustments for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30)
 - 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**Form 1040A filers:** Enter the total of any exclusions for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30) **4. -0-**
5. Add lines 2, 3, and 4 **5. 32,550**
6. **Form 1040 filers:** Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27. **Form 1040A filers:** Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19 **6. 1,000**
7. Is the amount on line 6 less than the amount on line 5?
No. None of your social security benefits are taxable.
Yes. Subtract line 6 from line 5 **7. 31,550**
8. If you are:
 - Married filing jointly, enter \$32,000
 - Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004, enter \$25,000 **8. 32,000****Note:** If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.
9. Is the amount on line 8 less than the amount on line 7?
No. None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.
Yes. Subtract line 8 from line 7 **9. _____**
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004 **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 14a.
 - Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.




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.

Example 3.

Joe and Betty Johnson file a joint return on Form 1040 for 2004. Joe is a retired railroad worker and in 2004 received the social security equivalent benefit (SSEB) portion of tier 1 railroad retirement 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 qualified U.S. savings bond. The savings bond interest qualified for the exclusion. Thus, they have a total income of \$40,300 (\$38,000 + \$2,300). They figure their taxable benefits by completing Worksheet 1 below. More than 50% of Joe's net benefits are taxable because the income on line 7 of the worksheet (\$45,500) is more than \$44,000. (See *Maximum taxable part* under *How Much Is Taxable* earlier.) Joe and Betty enter \$10,000 on line 20a, Form 1040, and \$6,275 on line 20b, Form 1040.

Filled-in Worksheet 1. Figuring Your Taxable Benefits

Keep for your records

<p>Before you begin: Is your filing status <i>Married filing separately</i>? </p> <p>No. Go to line 1 below.</p> <p>Yes. Did you live apart from your spouse all year?</p> <p>No. Go to line 1 below.</p> <p>Yes. Do the following if you file:</p> <p>Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.</p> <p>Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.</p>	
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1. \$10,000
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.	
2. Enter one-half of line 1	2. 5,000
3. Enter the total of the amounts from:	
Form 1040: Lines 7, 8a, 8b, 9a, 10-14, 15b, 16b, 17-19, and 21	
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13	3. 40,300
4. Form 1040 filers: Enter the total of any exclusions/adjustments for:	
• Qualified U.S. savings bond interest (Form 8815, line 14)	
• Adoption benefits (Form 8839, line 30)	
• 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	
Form 1040A filers: Enter the total of any exclusions for:	
• Qualified U.S. savings bond interest (Form 8815, line 14)	
• Adoption benefits (Form 8839, line 30)	4. 200
5. Add lines 2, 3, and 4	5. 45,500
6. Form 1040 filers: Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19	6. -0-
7. Is the amount on line 6 less than the amount on line 5?	
No.  None of your social security benefits are taxable.	
Yes. Subtract line 6 from line 5	7. 45,500
8. If you are:	
• Married filing jointly, enter \$32,000	
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004, enter \$25,000	8. 32,000
Note: If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.	
9. Is the amount on line 8 less than the amount on line 7?	
No.  None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.	
Yes. Subtract line 8 from line 7	9. 13,500
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004	10. 12,000
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. 1,500
12. Enter the smaller of line 9 or line 10	12. 12,000
13. Enter one-half of line 12	13. 6,000
14. Enter the smaller of line 2 or line 13	14. 5,000
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. 1,275
16. Add lines 14 and 15	16. 6,275
17. Multiply line 1 by 85% (.85)	17. 8,500
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. \$6,275
<p> • Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a.</p> <p> • Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.</p>	
<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 2004. Bill earned \$8,000 during 2004. 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 below. 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 2004. See *How Much Is Taxable* earlier.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records

Before you begin: Is your filing status *Married filing separately*?



No. Go to line 1 below.

Yes. Did you live apart from your spouse all year?

No. Go to line 1 below.

Yes. Do the following if you file:

Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.

Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.

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 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, 9a, 10-14, 15b, 16b, 17-19, and 21		
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13	3.	<u>8,000</u>
4. Form 1040 filers: Enter the total of any exclusions/adjustments for:		
• Qualified U.S. savings bond interest (Form 8815, line 14)		
• Adoption benefits (Form 8839, line 30)		
• 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		
Form 1040A filers: Enter the total of any exclusions for:		
• Qualified U.S. savings bond interest (Form 8815, line 14)		
• Adoption benefits (Form 8839, line 30)	4.	<u>-0-</u>
5. Add lines 2, 3, and 4	5.	<u>10,000</u>
6. Form 1040 filers: Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19	6.	<u>-0-</u>
7. Is the amount on line 6 less than the amount on line 5?		
No. None of your social security benefits are taxable.		
Yes. Subtract line 6 from line 5	7.	<u>10,000</u>
8. If you are:		
• Married filing jointly, enter \$32,000		
• Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004, enter \$25,000	8.	<u> </u>
Note: If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.		
9. Is the amount on line 8 less than the amount on line 7?		
No. None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.		
Yes. Subtract line 8 from line 7	9.	<u> </u>
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2004	10.	<u> </u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11.	<u> </u>
12. Enter the smaller of line 9 or line 10	12.	<u> </u>
13. Enter one-half of line 12	13.	<u> </u>
14. Enter the smaller of line 2 or line 13	14.	<u> </u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	<u> </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>
• Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a.		
• Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.		

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.

Lump-Sum Election

You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 2004 in your 2004 income, even if the payment includes benefits for an earlier year.

TIP *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.*

Generally, you use your 2004 income to figure the taxable part of the total benefits received in 2004. However, you may be able to figure the taxable part of a lump-sum payment for an earlier year separately, using your income for the earlier year. You can elect this method if it lowers your taxable benefits.

Under the lump-sum election method, you refigure the taxable part of all your benefits for the earlier year (including the lump-sum payment) using that year's income. Then you subtract any taxable benefits for that year that you previously reported. The remainder is the taxable part of the lump-sum payment. Add it to the taxable part of your benefits for 2004 (figured without the lump-sum payment for the earlier year).

CAUTION *Because the earlier year's taxable benefits are included in your 2004 income, no adjustment is made to the earlier year's return. Do not file an amended return for the earlier year.*

Will the lump-sum election method lower your taxable benefits? To find out, take the following steps.

1. Complete Worksheet 1 in this publication.
2. Complete Worksheet 2 and Worksheet 3 as appropriate. Use Worksheet 2 if your lump-sum payment was for a year after 1993. Use 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.
4. Compare the taxable benefits on line 18 of Worksheet 1 with the taxable benefits on line 20 of Worksheet 4.

If the taxable benefits on Worksheet 4 are lower than the taxable benefits on Worksheet 1, you can elect to report the lower amount on your return.

Making the election. If you elect to report your taxable benefits under the lump-sum election method, follow the instructions at the bottom of Worksheet 4. Do not attach

the completed worksheets to your return. Keep them with your records.



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 IRS.

Lump-sum payment reported on Form SSA-1099 or RRB-1099. If you received a lump-sum payment in 2004 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 on the form. The form will also show the year (or years) the payment is for. However, Form RRB-1099 will not show a breakdown by year (or years) of any lump-sum payment for years before 2002. You must contact the RRB for a breakdown by year for any amount shown in box 9.

Example

Jane Jackson is single. In 2003 she applied for social security disability benefits but was told she was ineligible. She appealed the decision and won. In 2004, she received a lump-sum payment of \$6,000, of which \$2,000 was for 2003 and \$4,000 was for 2004. Jane also received \$5,000 in social security benefits in 2004, so her total benefits in 2004 were \$11,000. Jane's other income for 2003 and 2004 is as follows.

	Income	2003	2004
Wages		\$20,000	\$ 3,500
Interest income		2,000	2,500
Dividend income		1,000	1,500
Fully taxable pension			18,000
Total income		<u>\$23,000</u>	<u>\$25,500</u>

To see if the lump-sum election method results in lower taxable benefits, she completes Worksheets 1, 2, and 4 from this publication. She does not need to complete Worksheet 3 since her lump-sum payment was for years after 1993.

Jane completes Worksheet 1 to find the amount of her taxable benefits for 2004 under the regular method. She completes Worksheet 2 to find the taxable part of the lump-sum payment for 2003 under the lump-sum election method. She completes Worksheet 4 to decide if the lump-sum election method will lower her taxable benefits.

After completing the worksheets, Jane compares the amounts from line 20 of Worksheet 4 and line 18 of Worksheet 1. Because the amount on Worksheet 4 is smaller, she chooses to use the lump-sum election method. To do this, she prints "LSE" to the left of line 20a on Form 1040. She then enters \$11,000 on line 20a of Form 1040 and her taxable benefits of \$2,500 on line 20b.

Jane's filled-in worksheets (1, 2, and 4) follow.

Example. Jane Jackson

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records

Before you begin: Is your filing status *Married filing separately*?



No. Go to line 1 below.

Yes. Did you live apart from your spouse all year?

No. Go to line 1 below.

Yes. Do the following if you file:

Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.

Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099 **1. \$11,000**
Note: If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.
2. Enter one-half of line 1 **2. 5,500**
3. Enter the total of the amounts from:
Form 1040: Lines 7, 8a, 8b, 9a, 10-14, 15b, 16b, 17-19, and 21
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13 **3. 25,500**
4. **Form 1040 filers:** Enter the total of any exclusions/adjustments for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30)
 - 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**Form 1040A filers:** Enter the total of any exclusions for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30) **4. -0-**
5. Add lines 2, 3, and 4 **5. 31,000**
6. **Form 1040 filers:** Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27.
Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19 **6. -0-**
7. Is the amount on line 6 less than the amount on line 5?
No. None of your social security benefits are taxable.
Yes. Subtract line 6 from line 5 **7. 31,000**
8. If you are:
 - Married filing jointly, enter \$32,000
 - Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004, enter \$25,000 **8. 25,000****Note:** If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.
9. Is the amount on line 8 less than the amount on line 7?
No. None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.
Yes. Subtract line 8 from line 7 **9. 6,000**
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004 **10. 9,000**
11. Subtract line 10 from line 9. If zero or less, enter -0-. **11. -0-**
12. Enter the **smaller** of line 9 or line 10 **12. 6,000**
13. Enter one-half of line 12 **13. 3,000**
14. Enter the **smaller** of line 2 or line 13 **14. 3,000**
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- **15. -0-**
16. Add lines 14 and 15 **16. 3,000**
17. Multiply line 1 by 85% (.85) **17. 9,350**
18. **Taxable benefits.** Enter the **smaller** of line 16 or line 17 **18. \$3,000**
 - Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a.
 - Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.

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.



Example. Jane Jackson

Filled-in

Worksheet 2. Figure Your Additional Taxable Benefits (From a Lump-Sum Payment for a Year After 1993)

Enter earlier year 2003

Keep for your records

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.	<u>\$2,000</u>
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	2.	<u>1,000</u>
3. Enter the adjusted gross income reported on your return for the earlier year	3.	<u>23,000</u>
4. Enter the total of any exclusions/adjustments you claimed in the earlier year for:		
• Adoption benefits (Form 8839)		
• Qualified U.S. savings bond interest (Form 8815)		
• Student loan interest (Form 1040, page 1, or Form 1040A, page 1)		
• Tuition and fees (Form 1040, page 1, or Form 1040A, page 1)		
• Foreign earned income or housing (Form 2555 or Form 2555-EZ)		
• Certain income of bona fide residents of American Samoa (Form 4563) or Puerto Rico	4.	<u>-0-</u>
5. Enter any tax-exempt interest received in the earlier year	5.	<u>-0-</u>
6. Add lines 2, 3, 4, and 5	6.	<u>24,000</u>
7. Enter taxable benefits reported on your return for the earlier year	7.	<u>-0-</u>
8. Subtract line 7 from line 6	8.	<u>24,000</u>
9. If for the earlier year you were:		
• Married filing jointly, enter \$32,000		
• Single, head of household, qualifying widow(er), married filing separately and lived apart from your spouse for all of the earlier year, enter \$25,000		
• Married filing separately and lived with your spouse at any time during the earlier year enter -0-	9.	<u>25,000</u>
10. Is the amount on line 8 more than the amount on line 9?		
No. Skip lines 10-20 and enter -0- on line 21.		
Yes. Subtract line 9 from line 8	10.	_____
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 17 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.	<u>-0-</u>

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 2004.



Example. Jane Jackson

Filled-in Worksheet 4. Figure Your Taxable Benefits Under the Lump-Sum Election Method (Use With Worksheet 2 or 3)

Keep for your records

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 for 2004, minus the lump-sum payment for years before 2004	1.	<u>\$9,000</u>
Note: <i>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.</i>		
2. Enter one-half of line 1	2.	<u>4,500</u>
3. Enter the amount from line 3 of Worksheet 1	3.	<u>25,500</u>
4. Enter the amount from line 4 of Worksheet 1	4.	<u>-0-</u>
5. Add lines 2, 3, and 4	5.	<u>30,000</u>
6. Enter the amount from line 6 of Worksheet 1	6.	<u>-0-</u>
7. Subtract line 6 from line 5	7.	<u>30,000</u>
8. Enter the amount from line 8 of Worksheet 1. (Enter -0- if you are married filing separately and lived with your spouse at any time during 2004.)	8.	<u>25,000</u>
9. Is line 7 more than line 8? No. Skip lines 9–17 and enter -0- on line 18. Yes. Subtract line 8 from line 7	9.	<u>5,000</u>
10. Enter the amount from line 10 of Worksheet 1. (Enter -0- if you are married filing separately and lived with your spouse at any time during 2004.)	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>5,000</u>
13. Enter one-half of line 12	13.	<u>2,500</u>
14. Enter the smaller of line 2 or line 13	14.	<u>2,500</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>2,500</u>
17. Multiply line 1 by 85% (.85)	17.	<u>7,650</u>
18. Enter the smaller of line 16 or line 17	18.	<u>2,500</u>
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.	<u>-0-</u>
20. Taxable benefits under lump-sum election method. Add lines 18 and 19	20.	<u>\$2,500</u>

Next: Is line 20 above smaller than line 18 of Worksheet 1?

No. You cannot use this method to figure your taxable benefits. Follow the instructions on Worksheet 1 to report your benefits.

Yes. You can elect to report your taxable benefits under this method. **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 14a.
- Enter the amount from line 1 of Worksheet 1 on Form 1040, line 20a, or on Form 1040A, line 14a. If you are married filing separately and you lived apart from your spouse for all of 2004, also make the entries described at the top of Worksheet 1.
- If line 20 above is zero, follow the instructions in line 9 for "No" on Worksheet 1. Otherwise, enter the amount from line 20 above on Form 1040, line 20b, or on 1040A, line 14b.

Deductions Related to Your Benefits

You may be entitled to deduct certain amounts related to the benefits you receive.

Disability payments. You may have received disability payments from your employer or an insurance company that you included as income on your tax return in an earlier year. If you received a lump-sum payment from SSA or RRB, and you had to repay the employer or insurance company for the disability payments, you can take an itemized deduction for the part of the payments you included in gross income in the earlier year. If the amount you repay is more than \$3,000, you may be able to claim a tax credit instead. Claim the deduction or credit in the same way explained under *Repayment of benefits received in an earlier year* in the section *Repayments More Than Gross Benefits*, later.

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

Legal expenses for collecting the taxable part of your benefits are deductible as a miscellaneous itemized deduction on Schedule A (Form 1040), line 22.

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 (a figure in parentheses) and none of your benefits will be taxable. 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 SSA office or your local RRB field office.

Joint return. If you and your spouse file a joint return, and your Form SSA-1099 or RRB-1099 has a negative figure in box 5, but your spouse's does 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 2004. 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 total 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.

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

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

1. Figure your tax for 2004 with the itemized deduction included on Schedule A, line 27.
2. Figure your tax for 2003 in the following steps:
 - a. Figure the tax without the itemized deduction included on Schedule A, line 27.
 - b. For each year after 1983 for which part of the negative figure represents a repayment of benefits, refigure your taxable benefits as if your total benefits for the year were reduced by that part of the negative figure. Then refigure the tax for that year.
 - c. Subtract the total of the refigured tax amounts in (b) from the total of your actual tax amounts.
 - d. Subtract the result in (c) from the result in (a).

Compare the tax figured in methods (1) and (2). Your tax for 2004 is the smaller of the two amounts. If method (1) results in less tax, take the itemized deduction on Schedule A (Form 1040), line 27. If method (2) results in less tax, claim a credit for the amount from step 2(c) above on line 69 of Form 1040 and write "I.R.C. 1341" in the margin to the left of line 69. If both methods produce the same tax, deduct the repayment on Schedule A (Form 1040), line 27.



Before you begin: Is your filing status *Married filing separately*?

No. Go to line 1 below.

Yes. Did you live apart from your spouse all year?

No. Go to line 1 below.

Yes. Do the following if you file:

Form 1040: Enter "D" to the right of the word "benefits" on line 20a, then go to line 1 below.

Form 1040A: Enter "D" to the right of the word "benefits" on line 14a, then go to line 1 below.

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 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, 9a, 10-14, 15b, 16b, 17-19, and 21
Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13 **3.** _____
4. **Form 1040 filers:** Enter the total of any exclusions/adjustments for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30)
 - 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**Form 1040A filers:** Enter the total of any exclusions for:
 - Qualified U.S. savings bond interest (Form 8815, line 14)
 - Adoption benefits (Form 8839, line 30) **4.** _____
5. Add lines 2, 3, and 4 **5.** _____
6. **Form 1040 filers:** Enter the amount from Form 1040, line 35, minus any amounts on Form 1040, lines 26 and 27.
Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19. **6.** _____
7. Is the amount on line 6 less than the amount on line 5?
No. None of your social security benefits are taxable.
Yes. Subtract line 6 from line 5 **7.** _____
8. If you are:
 - Married filing jointly, enter \$32,000
 - Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004, enter \$25,000 **8.** _____**Note:** If you are married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.
9. Is the amount on line 8 less than the amount on line 7?
No. None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2004, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.
Yes. Subtract line 8 from line 7 **9.** _____
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2004 **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 14a.
 - Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.

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. **Figure Your Additional Taxable Benefits (From a Lump-Sum Payment for a Year After 1993)**

Enter earlier year _____

Keep for your records

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.	_____
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	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:		
• Adoption benefits (Form 8839)		
• Qualified U.S. savings bond interest (Form 8815)		
• Student loan interest (Form 1040, page 1, or Form 1040A, page 1)		
• Tuition and fees (Form 1040, page 1, or Form 1040A, page 1)		
• Foreign earned income or housing (Form 2555 or Form 2555-EZ)		
• 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. If for the earlier year you were:		
• Married filing jointly, enter \$32,000		
• Single, head of household, qualifying widow(er), married filing separately and lived apart from your spouse for all of the earlier year, enter \$25,000		
• Married filing separately and lived with your spouse at any time during the earlier year, enter -0-	9.	_____
10. Is the amount on line 8 more than the amount on line 9?		
No. Skip lines 10-20 and enter -0- on line 21.		
Yes. Subtract line 9 from line 8	10.	_____
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 2004.		



Worksheet 3. **Figure Your Additional Taxable Benefits (From a Lump-Sum Payment for a Year Before 1994)**

Enter earlier year _____

Keep for your records

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.	_____
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.		
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:		
• Qualified U.S. savings bond interest (Form 8815)		
• Foreign earned income or housing (Form 2555 or Form 2555-EZ)		
• 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. Is line 8 more than line 9?		
No. Skip lines 10–13 and enter -0- on line 14.		
Yes. Subtract line 9 from line 8.	10.	_____
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 2004.



Worksheet 4. **Figure Your Taxable Benefits Under the Lump-Sum Election Method**
(Use With Worksheet 2 or 3)

Keep for your records

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 for 2004, minus the lump-sum payment for years before 2004 **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. (Enter -0- if you are married filing separately and lived with your spouse at any time during 2004.) **8.** _____
 9. Is line 7 more than line 8?
No. Skip lines 9–17 and enter -0- on line 18.
Yes. Subtract line 8 from line 7 **9.** _____
 10. Enter the amount from line 10 of Worksheet 1. (Enter -0- if you are married filing separately and lived with your spouse at any time during 2004.) **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.** _____
- Next:** Is line 20 above smaller than line 18 of Worksheet 1?
No. You cannot use this method to figure your taxable benefits. Follow the instructions on Worksheet 1 to report your benefits.
Yes. You can elect to report your taxable benefits under this method. **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 14a.
 - Enter the amount from line 1 of Worksheet 1 on Form 1040, line 20a, or on Form 1040A, line 14a. If you are married filing separately and you lived apart from your spouse for all of 2004, also make the entries described at the top of Worksheet 1.
 - If line 20 above is zero, follow the instructions in line 9 for "No" on Worksheet 1. Otherwise, enter the amount from line 20 above on Form 1040, line 20b, or on 1040A, line 14b.

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2004 • 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 2004	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2004 (Box 3 minus Box 4)
DESCRIPTION OF AMOUNT IN BOX 3	DESCRIPTION OF AMOUNT IN BOX 4	
	Box 6. Voluntary Federal Income Tax Withholding	
	Box 7. Address	
	Box 8. Claim Number (Use this number if you need to contact SSA.)	

Form SSA-1099-SM (1-2005)

DO NOT RETURN THIS FORM TO SSA OR IRS

your benefits are taxable. Do not mail Notice 703 to either the IRS or the SSA.

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.



The illustrated versions of Forms SSA-1099, SSA-1042S, RRB-1099, and RRB-1042S in this appendix are proof copies of the forms as they appeared when this publication went to print. The information on the illustrated forms 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

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 U.S. social security number, if known, of the person named in box 1.



In all your correspondence with the SSA, be sure to use the claim number shown in box 8.

Box 3—Benefits Paid in 2004

The figure shown in this box is the total benefits paid in 2004 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 2004 for one or more earlier years.

Description of Amount in Box 3

This part 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.

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 2004.

Additions. The following adjustment items may have been deducted from your benefits in 2004. If amounts appear on your Form SSA-1099 next to these items, they will be added to the amount shown in "Paid by check or direct deposit."



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 deducted from your benefit. If you have Medicare premiums deducted from your benefits, this is the amount withheld during 2004. The basic monthly premium in 2004 was \$66.60, 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.

Paid to another family member. This entry shows total payments withheld from your benefits if you are required to pay child support or alimony.

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.

Attorney fees. 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.

Voluntary federal income tax withheld. This shows the total amount of federal income tax withheld from your benefits. Include this amount on your income tax return as tax withheld.

Benefit payment offset—Treasury. Part of your Title II Social Security benefit may be withheld on behalf of the Treasury Department to recover debts you owe to other federal agencies.

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 2004. If amounts appear on your Form SSA-1099 next to these items, they will be subtracted from the figure in *Total Additions*.

Payments for months before December 1983. The figure shown here is the amount of benefits you received in 2004 that was for months before December 1983. These benefits are not taxable no matter 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 2004.

Amounts refunded to you. The amount shown here may include Medicare premiums you paid in excess of the amount actually due. It also may include amounts withheld in 2003 to pay your attorney in excess of the fee actually paid.

Nontaxable payments. This entry shows nontaxable payments such as lump-sum death payments.

Amounts paid to you for other family members. This entry shows benefit payments paid to you on behalf of a minor child or disabled adult.

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

Benefits for 2004. The amount shown here is the result of subtracting the figure in *Total subtractions* from the figure in *Total additions*. This amount is the same as that shown in box 3.

***Box 3 includes \$_____ paid in 2004 for 2003, 2002, and other tax years.** The figure shown here is the amount of any lump-sum benefit payment received in 2004 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 2004

The figure shown in this box is the total amount of benefits you repaid to SSA in 2004.

Description of Amount in Box 4

This part 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 2004, no matter when the benefits were received. Only the repayments that apply to you will be

FORM SSA-1042S – SOCIAL SECURITY BENEFIT STATEMENT

2004 • THIS FORM IS FOR USE IN FILING A UNITED STATES FEDERAL INCOME TAX RETURN. • DO NOT RETURN IT TO SOCIAL SECURITY. READ THE INFORMATION ON THE REVERSE.		
Box 1. Name		Box 2. Beneficiary's Social Security Number
Box 3. Benefits Paid in 2004	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2004 (<i>Box 3 minus Box 4</i>)
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
		Box 10. Address
Box 6. Rate of Tax		Box 11. Claim Number (<i>Use this number if you need to contact SSA.</i>)
Box 7. Amount of Tax Withheld		
Box 8. Amount of Tax Refunded		
Box 9. Net Tax Withheld During 2004 (<i>Box 7 minus Box 8</i>)		

Form SSA-1042S-SM (1-2005)

shown. If you did not make any repayments, the word "none" will be shown.

Checks returned to SSA. If any of your benefit checks were returned to SSA, the total is shown here.

Deductions for work or other adjustments. If any amounts were withheld from your benefits 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*.

Other repayments. This is the amount you repaid to SSA by direct remittance.

Benefits repaid to SSA in 2004. 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 2004 (*Box 3 minus Box 4*)

The figure in this box is the net 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 parentheses are 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 2004. If you have any questions about this negative figure, contact your local SSA office. For more information, see *Repayments More Than Gross Benefits*, earlier.

Box 6—Voluntary Federal Income Tax Withheld

This shows the total amount of federal income tax withheld from your benefits. Include this amount on your income tax return as tax withheld.

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 2004. The tax rate for most nonresident aliens is 30%. If you are a resident of Switzerland, your total benefit amount will be taxed at a 15% rate. The figure “0” will appear in this box if you were not taxed in December or if you were exempt under a tax treaty. Benefits received by residents of Canada, Egypt, Germany, Ireland, Israel, Italy, Japan, Romania, and the United Kingdom are exempt from U.S. tax.

Under a treaty with India, benefits paid to individuals who are both residents and nationals of India are exempt from U.S. tax if the benefits are for services performed for the United States, its subdivisions, or local government authorities. 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 were exempt 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 2004

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. Form RRB-1099 is issued to citizens and residents of the United States. If you received, repaid, or had tax withheld from the social security equivalent benefit (SSEB) portion of tier 1 railroad retirement benefits or special guaranty benefits during 2004, you will receive Form RRB-1099.

If you received, repaid, or had tax withheld from any non-social security equivalent benefit (NSSEB) portion of tier 1, tier 2, vested dual benefits or supplemental annuity benefits during 2004, you will receive Form RRB-1099-R, Annuities or Pensions by the Railroad Retirement Board. For more information concerning Form RRB-1099-R, see Publication 575.



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. To help insure that you get your form timely, make sure the RRB always has your current mailing address.

Box 1—Claim Number 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 SSEB portion of tier 1 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. In all your contacts with the RRB, be sure to use the claim number and payee code shown in this box.

Box 2—Recipient's Identification Number

This is the U.S. social security number (SSN), individual taxpayer identification number (ITIN), or employer identification number (EIN), if known, for the person or estate listed as the recipient.

Box 3—Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004

The figure shown in this box is the gross SSEB portion of tier 1 benefits or special guaranty benefits paid to you in 2004. It is the amount before any deductions were made for:

- Federal income tax withholding,
- Medicare premiums,
- Legal Process Garnishment payments,
- Legal Process Assignment payments,
- Recovery of an overpayment, including recovery of Railroad Unemployment Insurance Act benefits received while awaiting payment of your railroad retirement annuity, and
- Workers' compensation offset (explained in the description of box 6, later).

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

- Social security benefits,
- Age reduction,
- Public service pensions or public disability benefits,
- Dual railroad retirement entitlement under another RRB claim number,
- Work deductions,
- Actuarial adjustment,
- Annuity waiver, and
- Legal Process Partition payments.

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		2004	PAYMENTS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600			3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004	
1. Claim Number and Payee Code		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2004		COPY C - FOR RECIPIENT'S RECORDS THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.
2. Recipient's Identification Number		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004		
Recipient's Name, Street Address, City, State, and Zip Code		6. Workers' Compensation Offset in 2004		
		7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2003		
		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2002		
		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2002		
		10. Federal Income Tax Withheld	11. Medicare Premium Total	

FORM RRB-1099

DO NOT ATTACH TO YOUR INCOME TAX RETURN



Social security benefits paid through the RRB are not reported on Form RRB-1099 or RRB-1042S. They are reported on Form SSA-1099 or Form SSA-1042S issued by the SSA.

Example 1. For the period January through March 2004, 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, 2004, but you did not receive your first payment until April 2004. The payment you received in April was for the first three months of 2004. However, because you received unemployment benefits during the same period, \$300 was deducted from your initial benefit payment. 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 2004, 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 2003 through May 2004. Your \$600 monthly tier 1 benefits consist of an SSEB portion of \$250 and a non-social security equivalent benefit (NSSEB) portion of \$350. Beginning in June 2004, you became entitled to Medicare, and \$66.60 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 \$533.40 (\$600 - \$66.60) 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. Box 11 of your Form RRB-1099 will show your Medicare premiums of \$399.60 (\$66.60 x 6 months) deducted from June through November 2004.

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. (The *Medicare Premium Total* box shown on your Form RRB-1099-R will be blank because the Medicare total will be shown in box 11 of your Form RRB-1099.) For more information on Form RRB-1099-R, see Publication 575.

Benefits paid for earlier years. The figure in box 3 includes any lump-sum benefit payment you received in 2004 that is for an earlier year after 1983. If you received a payment for an earlier year, it will be shown in box 7, 8, or 9 (described later). See *Lump-Sum Election*, earlier, for information on how to treat the payment.

Box 4—Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2004

The figure shown in this box is the total SSEB portion of tier 1 benefits you repaid to the RRB in 2004. You may have repaid a benefit by returning a payment, 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 2004 that were for 2004 or for one or more years before 2004. 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 2004. The SSEB portion of your tier 1 benefits 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 June through August 2004. Box 4 of your Form RRB-1099 will show \$1,350 (\$450 x 3 months) as the SSEB portion of tier 1 benefits you repaid to the RRB.

Example 2. From January through April 2004 you were overpaid \$800 in the SSEB portion of tier 1 benefits. From May through August 2004, \$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 x 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 2003. You also became entitled to, and received from the SSA, a social security benefit of \$300 a month beginning May 1, 2004. SSA later authorized the RRB to pay that benefit. In August 2004, 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 (\$300 x 3 months) covering the period May through July 2004 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 for the months of May through July 2004.)

Box 5—Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004

The figure shown in this box is the net amount of the SSEB portion of tier 1 benefits paid to you in 2004. It is the result of subtracting the amount in box 4 from the amount in box 3. If you received more than one Form RRB-1099 for 2004, you should add the amounts in box 5 of all Forms RRB-1099 to determine your net amount of SSEB payments for 2004. Use this amount to determine if any of your benefits are taxable. See *Are Any of Your Benefits Taxable*, earlier.

If parentheses are 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 2004. For more information, see *Repayments More Than Gross Benefits*, earlier.

Box 6—Workers' Compensation Offset in 2004

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 amounts by which your SSEB payments were reduced for workers' compensation benefits. 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. For 2004, 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 x 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 x 12 months). In figuring if any of your benefits are taxable, you must use \$5,400 (box 5) 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 2003 or 2002

The figure shown in each applicable box is the amount of SSEB benefits paid to you in 2004 that was for 2003 or 2002. 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 2002

The figure shown in this box is the amount of SSEB benefits paid to you in 2004 that was for 2001 and earlier years after 1983. This amount is included in the amount shown in box 3. Any tier 1 benefit paid for a period before 1986 is treated as SSEB.

Box 10—Federal Income 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. This total is based on the amount of SSEB tax withholding requested on IRS Form W-4V, Voluntary Withholding Request. Include this amount on your income tax return as tax withheld.



In some cases, a tax withholding amount may be shown in this box even though you did not request SSEB tax withholding. This may happen if you previously had taxes withheld from your pension payments (NSSEB, tier 2, and/or vested dual benefit), but the taxability of those payments has since changed. In these cases, the tax withholding amount is applied to the SSEB since that is your only taxable component.

Box 11—Medicare Premium Total

This is for information purposes only. This is the total amount of Part B Medicare premiums deducted from your railroad retirement annuity payments shown on your Form RRB-1099 for 2004. Medicare premium refunds are not included in this total. The Medicare total is normally shown

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		2004		STATEMENT FOR NONRESIDENT ALIEN RECIPIENTS OF:		PAYMENTS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004					
1. Claim Number and Payee Code		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2004				COPY B - FILE WITH RECIPIENT'S FEDERAL TAX RETURN. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.	
2. Recipient's Identification Number		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004					
Recipient's Name, Street Address, City, State, and Zip Code		6. Workers' Compensation Offset in 2004					
		7. Social Security Equivalent Benefit Portion of Tier 1 Paid in 2003					
		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2002					
		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2002					
		10. Country	11. Rate of Tax	12. Federal Tax Withheld	13. Medicare Premium Total		

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on Form RRB-1099. However, if Form RRB-1099 is not required for your 2004 taxes, then this total will be shown on Form RRB-1099-R. Medicare premiums deducted from your social security benefits, paid by a third party, or paid by direct billing will not be shown in this box.

**Form RRB-1042S
(Nonresident Aliens)**

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

Note. If your country of legal residence changed or your tax withholding rate changed during the year, you may receive more than one Form RRB-1042S. To determine your total amounts for the year, you should add the amounts shown on all Forms RRB-1042S you received for that year.

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%" or "15%" may appear in this box if you claimed a tax treaty exemption by filing Form RRB-1001 with the RRB. For more information,

see *Nonresident aliens* earlier under *Are Any of Your Benefits Taxable*.

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 your tier 1 payments while you were a legal resident of the country in box 10 in 2004. If you received more than one Form RRB-1042S for 2004, add the amounts in box 12 of all Forms RRB-1042S to determine your total amount of U.S. federal income tax withheld from SSEB payments for 2004. Tax is withheld for any month in which you were a nonresident alien (unless you claimed exemption under a tax treaty).

Box 13—Medicare Premium Total

This is for information purposes. This is the total amount of Part B Medicare premiums deducted from your railroad retirement annuity payments shown on your Form RRB-1042S for 2004. Medicare premium refunds are not included in this total. The Medicare total is normally shown on Form RRB-1042S. However, if Form RRB-1042S is not required for your 2004 taxes, then this total will be shown on Form RRB-1099-R. Medicare premiums deducted from your social security benefits, paid by a third party, or paid by direct billing will not be shown in this box.



You should contact your nearest RRB field office (if you reside in the United States) or U.S. consulate/embassy (if you reside outside of the United States) for assistance with your RRB tax statement inquiries. If you are in the United States or Canada, you may call the RRB toll free at 1-800-808-0772. You may also visit the RRB on the Internet at www.rrb.gov. If you have any questions about how to figure your taxable payments or what amounts to show on your income tax returns, contact the IRS.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit www.irs.gov/advocate.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.

- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

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on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



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- **Services.** You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



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CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.



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