**General Information**

* Usethis process if the taxpayer received lump sum social security benefits or RR Benefits Tier 1 for previous years. Do not do an amended return.
* The amounts are shown on Form SSA-1099A, Box 3 (Bottom).
* Complete this process after all income is entered.
* You must have copies of prior year’s returns.
* If the taxpayer’s total SS or RR Benefit is not taxable in the current year, STOP HERE.

**What you need to know from previous year’s returns**

* Filing Status from prior year
* The amount of SS or RR received for the prior year
* The taxable portion of the SS or RR from the prior year
* Adjusted Gross Income from prior year
* The total of any exclusions/adjustments you claimed in the earlier year for
	+ Student loan interest (Form 1040, page 1, or Form 1040A, page 1)
	+ Tuition and fees (Form 1040, page 1, or Form 1040A, page 1)
	+ Domestic production activities (for 2005 through 2014) (Form 1040, 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
	+ Adoption benefits (Form 8839)
	+ Qualified U.S. savings bond interest (Form 8815)
* The amount of any tax-exempt interest from the prior year

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Amounts from previous years are shown in Box 3 of the SSS-1099

2016 for 2014

2016 for 2013

**References**

* IRS Publication 4012 – Page D-27 and D-28
* IRS Publication 915

**Start with Social Security Input Screen**

**Step 1**

* Enter the information from the SSA-1099 for both taxpayer and spouse into the TSO Social Security 1099 SSA screen as normal. Make a note of the refund/owed amount in the TSO refund monitor for both the Federal and NJ.

**Step 2**

* Select “Begin Worksheet” at the bottom of the Social Security Input Screen.

**Step 3**

* Create a worksheet for each year a lump sum was paid. See screen shot below from Pub 4012 page D-26.



**Modified AGI = AGI (1040 line 37 + tax exempt interest (1040 line 8b) + student loan interest deductions (1040 line 33) + Tuition & Fees deduction (1040 line 34) + any exclusions or adjustments on Forms 8815, 8839, 2555, 2555EZ.**

**Step 4**

* After completing the Lump Sum Social Security Worksheets, check the refund/owed amount in the TSO refund monitors. Compare the total of the Federal and the NJ refunds with the total noted in Step 1.
* Leave the lump sum worksheets in the return even if there is no benefit in case there is a future amendment to the return.

**Legal Fees**

Legal fees are deductible on Schedule A, line 23 (subject to the 2% AGI limitation), if the taxpayer itemizes deductions. Legal fees associated with obtaining the benefits can be deducted to the extent that the benefits are taxable.

Example:
Attorney Fees: $3,090
Gross SS Income: $33,996
Taxable amount of SS: $23,925
Deductible attorney fees (Schedule A, line 23): [$3,090 x $23,925 / $33,996] = $2,175

NOTE: Since previous returns were not amended, the entire $23,925 was allocated to the current year.

**Disability Insurance Repayment**

Social Security Lump Sums are often associated with repayment of private disability insurance.  The "repayment" can be handled according to IRC 1341 as a "Claim of Right", in a manner similar to the SS Lump Sum Election. This is “out of scope” and should be referred to a professional preparer.