

Social Security Simplified: Can COLA Increase Your Taxes?

The Social Security Administration announced that Social Security recipients will get a 3.2% increase in their monthly payments in 2024 as part of the annual cost-of-living adjustment (COLA). This increase is a big drop compared to 2023's cost-of-living adjustment, which was 8.7%.¹ The smaller increase from 2023 to 2024 signifies a significant cooling of inflation over the past 12 months. While we all love the promise of a benefit increase, we want to make sure it won't increase our taxes in the upcoming year.

While infrequent, it's possible for the COLA to impact how much of your Social Security benefits are subject to income taxation. This is dependent on how much you receive in Social Security benefits and what other income you have during the tax year. For some individuals, the COLA increase may push a portion of your income into a higher tax bracket.

COLA can increase your taxes in two ways:

- 1 COLA can increase the amount of your Social Security that gets taxed
 - Social Security is taxed in three thresholds: 0%, 50% and 85% depending on your income and amount of Social Security benefits.
 - There's a chance the COLA may increase your Social Security benefits, thereby causing more benefits to be taxed.
- 2 COLA can increase your income and bump you into a higher tax bracket
 - Cost-of-living adjustment increases can have an impact on income, which can, in some cases, bump you into a higher tax bracket—which could mean an increase in your taxes.

For example, let's say you're a Social Security recipient who is an individual filer with an income of \$100,400. In 2024, you would be in the 22% tax bracket, but after the COLA increase, there's a possibility you could be bumped into the 24% bracket.

Next Step:

Calculating taxes on Social Security can be complicated and confusing. Reach out to your financial professional or a tax expert to find out if the COLA increase will have an impact on the amount of taxes you pay next year. These professionals may be aware of strategies to help you avoid unnecessary taxes as a result of COLA.

¹Cost-of-Living Adjustment (COLA): What It Is, How It's Calculated, Nerd Wallet, 10/23