

Is Workers' Comp Taxable?

So, is workers' compensation taxable?

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THE LAW OFFICES OF CRAIG A.
ALTMAN

Say you had a tough year. You unexpectedly get hurt while working and end up having to face the stack of paperwork just to file for and earn Workers' Compensation Benefits. Sadly, you're now faced with a different dilemma. It's a question you never thought of before getting hurt and dealing with your recovery process. So, you pick up the phone and type your question into your trust search engine, Google:

“

Tax season is among us, so make sure you're well informed!”

Craig Altman, Esq.

“Google, [Is Workers' Compensation taxable?](#)”

It was a smart move to Google such a question, and you've been brought to the right place as the experts at the Law Offices of Craig Altman have the answers you're looking for

regarding Workers' Compensation Lawyers.

Workers' Compensation Benefits are, in fact, Tax Exempt

Generally speaking, there's not any workers' compensation that isn't taxable. According to the IRS, “Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute like a workers' compensation act.”

At a state or federal level, workers' compensation benefits, mostly, are not taxable. Non-taxable income and workers' compensation fit into the same category:

Public welfare fund payments;

Compensatory (but not punitive) damages for sickness or physical injury;

Disability benefits that fall under a “no-fault” car insurance policy for loss of income or earning capacity as a result of injury;

Compensation for indefinite loss of physical body function, permanent disfigurement, or loss of physical body function.

In simple terms, workers' compensation benefits given as a result of a work injury are tax-exempt, for federal income tax purposes. Survivors are exempt for the same reason when it comes to payments.

The Exception to the Rule

There is an exception to the rule, however. Say a hurt employee earns Supplemental Security Income (SSI) in addition to their workers' compensation, the given supplemental earnings can be taxed. If you also earn Social Security Disability Insurance (SSDI), a small amount of your workers' comp benefits can be taxed.

Compensation coming from Social Security would be Payments coming from Social Security would be lessened and the amount remaining from the workers' compensation payment would be taxable. There's still a caveat, though. The amount you earn does matter when it comes to taxes. The amount, however, would be small enough to be negligible for taxation, in most cases, however.

SSDI BENEFITS

If you cannot work due to disability, are a few things you should know about your Social Security options. Our SSDI lawyers can assist people with their SSDI benefits pursuit(s).

WILL SSDI BE TAXED?

As we all know, tax season is a stressful and dreadful part of the year for most people. You ask yourself if your disability is taxable, and the answers depend on a few different things.

The Details on When and How Workers' Comp is Taxable

Let's begin with the fundamental question: did you get hurt at work? Remember, workers' compensation benefits are not usually considered taxable at a federal or state level. The exception to the rule is when someone also collects disability benefits via their SSI or SSDI. In the type of rare situation, the Social Security Administration (SSA) might decline a person's SSI or SSDI so that between the disability payments and workers' compensation are under a certain point. This reduction is known as workers' compensation offset.

This means the bulk of taxable workers' compensation is equal to the amount that SSA reduces on your disability payments.

If Social Security decreases your monthly SSDI check by, say, \$250 due to the workers' compensation offset, that means that \$250 of your workers' comp benefits are taxable.

Taxable Income has a Threshold

Many people who earn social security benefits and workers' compensation benefits don't receive the correct amount of taxable income that would apply as federal taxes. This means that even if a few your benefits are taxable, there is a small chance that you will owe taxes.

Plus, an established and reputable workers' compensation lawyer can help you structure your workers' compensation settlement to lessen the offset and cut down your income that's taxable. So if you do fall into the category of people who apply and consider a specific amount of their workers' compensation taxable income, there are lawyers who can help you through the process and prevent you from having to pay taxes on your benefits.

At what point Does the Workers' Compensation Offset Apply?

Time to do some math. If you are collecting both workers' compensation and Social Security

Disability, the joint amount cannot go above 80% of your average current earnings. Your “average current earnings” are described as the largest of:

the median monthly payment used to compute your benefits
one-sixtieth of your total payments for your highest-gross five years in a row, or
one-twelfth of your total earnings from your highest-wage year out of the following five.
Many states handle this by decreasing your Social Security payments until you no longer go above the 80% amount. Some states have a “reverse offset,” though, where your workers’ comp wages are diminished.

Other Fees Added in

There are other miscellaneous details and fees to note upon. For instance, SSA does not include legal fees, past or future medical expenses, dependent payments, or other costs from workers’ comp before adding the offset. It is essential for your attorney or you to let Social Security know of these expenses and include proper documentation.

If for some reason you earn a lump sum [workers’ comp settlement](#), Social Security will divide the amount after subtracting charges, to figure out your monthly percentage.

Lessening Taxable Earnings From a Workers’ Comp Settlement

It’s essential that your workers’ compensation lawyer structures your settlement to reduce your offset. This will also prevent a tax burden.

The most common way to decrease tax burden is for the settlement agreement to convey that the lump sum should be handled like it was spread out over an expected lifetime. By doing this you could still collect a lump sum, rather than small recurring payments, but the lump sum is applied towards the remainder of your lifespan. It is essential to make sure that the monthly rate is included in your settlement agreement.

If you have more questions or are in need of a workers’ compensation attorney, the Law Offices of Craig Altman are here to assist! Contact us today at (215) 703-9889 for more information.

Note: In some states, the settlement can only be divided through your retirement date, not the remainder of your life. Either way, a short and hefty settlement agreement can exclude your tax liability for workers’ comp benefits.

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