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## Social Security Benefit Taxation Highlights

### Key Findings

- In April 2020, the Social Security system provided over \$89.7 billion in monthly benefits to 64.6 million retired workers, disabled workers, and their spouses, survivors, and dependents.
- Since 1993, beneficiaries with income above certain statutory thresholds are subject to federal income taxation on up to 85% of their Social Security benefits.
- Around half of all Social Security beneficiaries do not pay federal income tax on their Social Security benefits, but the proportion of beneficiaries who owe income tax on their Social Security benefits is rising.
- The overall share of Social Security benefits that will be paid as federal income taxes is projected to be 6.6% in 2020. It increases with income and is projected to reach nearly 32% for taxpayer units with income over \$1 million in 2020.
- In 2019, the Social Security trust funds were credited with \$36.5 billion from taxation of Social Security benefits, or 3.4% of the trust funds' total income. Also in 2019, income to the Medicare Hospital Insurance trust fund from the taxation of Social Security benefits was \$23.8 billion, or 7.4% of the trust fund's total income.
- Four bills have been introduced in the 116<sup>th</sup> Congress that would either raise the income thresholds for taxation of Social Security benefits or eliminate taxation of Social Security benefits.

### How Does Taxation of Social Security Benefits Work?

#### Taxable Social Security Benefits

Calculation of taxable Social Security benefits depends on the level of benefits and the level of non-Social Security income. Social Security beneficiaries whose provisional income is above one of two statutory thresholds pay federal income taxes on a portion of their Social Security benefits. Provisional income roughly equates to modified adjusted gross income plus 50% of Social Security benefits.

- Taxpayers filing as single with provisional income less than \$25,000, and taxpayers filing a joint return with provisional income less than \$32,000, do not pay federal income tax on their Social Security benefits.
- Taxpayers filing as single with provisional income between \$25,000 and \$34,000, and taxpayers filing a joint return with provisional income between \$32,000 and \$44,000, pay federal income tax on up to 50% of their Social Security benefits.

- Taxpayers filing as single with provisional income greater than \$34,000, and taxpayers filing a joint return with provisional income greater than \$44,000, pay federal income tax on up to 85% of their Social Security benefits.
- Holding *benefits* constant, as non-Social Security income increases, provisional income increases, and therefore the taxable amount of Social Security benefits increases.
- Holding *non-Social Security income* constant, as Social Security benefits increase, the taxable amount of Social Security benefits increases.

#### Federal Income Tax on Taxable Social Security Benefits

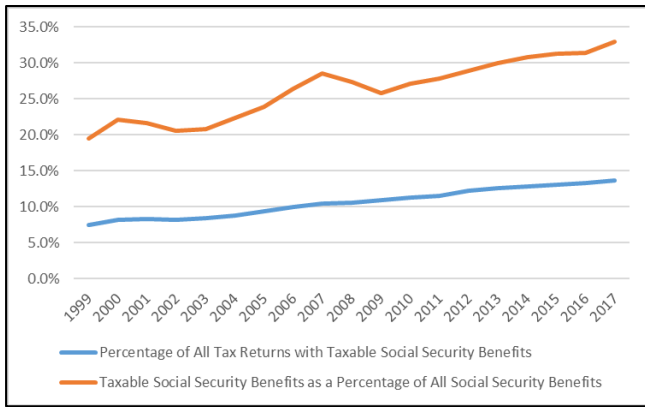
The federal tax rate and the amount of federal income tax owed on taxable Social Security benefits are determined separately through the federal income tax system. They are based on the taxpayer's other taxable income and marginal tax rate. Revenue from federal income taxes paid on Social Security benefits is credited to the Social Security and Medicare Hospital Insurance (HI) trust funds.

#### Who is Affected by Social Security Benefit Taxation, and By How Much?

Around half of all Social Security beneficiaries do not pay federal income tax on their Social Security benefits. The Congressional Budget Office (CBO) estimated that 49% of Social Security beneficiaries were affected by the income taxation of Social Security benefits in tax year 2014, almost doubling since 1998, when 26% of beneficiaries were affected by benefit taxation. A 2015 Social Security Administration (SSA) analysis projected that more than 56% of Social Security beneficiary families will owe income tax on their Social Security benefits in 2050. The proportion is growing because Social Security benefits are indexed to wage growth and adjusted for inflation, whereas the provisional income thresholds used to determine the taxable amount of Social Security benefits are fixed by statute and not indexed for inflation or wage growth.

The percentage of all tax returns with taxable Social Security benefits has grown from 7.4% in 1999 to 13.7% in 2017 (**Figure 1**, blue line). The taxable amount of Social Security benefits as a percentage of all Social Security benefit payments has grown from 19.5% in 1999 to 33.0% in 2017 (**Figure 1**, orange line). CBO estimated that the proportion will increase to more than 50% by 2046.

**Figure 1. Income Taxation of Social Security Benefits**



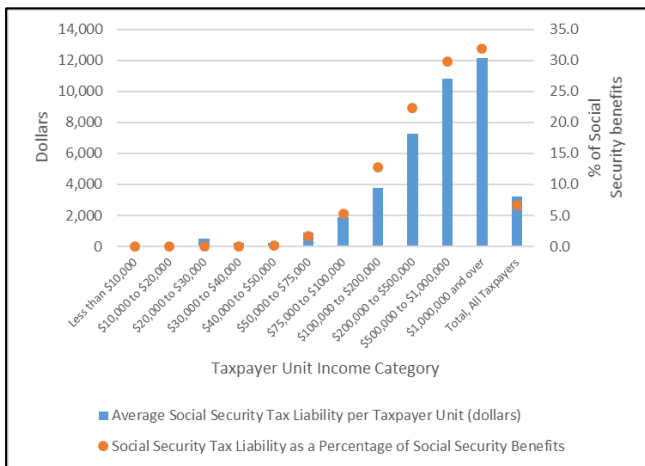
**Source:** CRS calculations from Internal Revenue Service, *Statistics of Income Bulletin Historical Table 1*; IRS, *SOI Tax Stats – Individual Income Tax Returns*, Preliminary Data, Table 1; and Social Security Administration, Office of the Chief Actuary, *Trust Fund Tables, OASI and DI Trust Funds, Combined, 1957 and later*.

**Notes:** IRS data for 2017 are preliminary.

Federal income tax liability on Social Security benefits increases with income. The overall share of Social Security benefits that will be paid as federal income taxes is projected to be 6.6% in 2020 (Figure 2, right vertical axis), ranging from zero for the lowest income categories to 31.9% for taxpayer units with economic income over \$1 million. SSA’s 2015 analysis is projected that, among all beneficiary families, the mean percentage of Social Security benefits owed as taxes will be 10.9% in 2020.

Average federal income tax liability on Social Security benefits across all Social Security taxpayer units is projected to be about \$3,200 in 2020 (Figure 2, left vertical axis), ranging from zero for the lowest income categories to \$12,000 for taxpayer units with economic income greater than \$1 million.

**Figure 2. Social Security Tax Liability Projected for 2020**



**Source:** CRS and Joint Committee on Taxation (JCT), *Background on Revenue Sources for the Social Security Trust Funds, JCX-41-19*, Table 9, July 24, 2019.

**Notes:** The concept of economic income as defined by JCT includes the annual flow of all resources at the command of an individual and represents an individual’s total well-being.

## How Important Is Benefit Taxation to the Trust Funds?

The proceeds from taxing up to 50% of Social Security benefits for taxpayers filing as single with provisional income between \$25,000 and \$34,000, and taxpayers filing a joint return with provisional income between \$32,000 and \$44,000, are credited to the Social Security trust funds. In 2019, the Social Security trust funds were credited with \$36.5 billion from taxation of benefits, or 3.4% of the trust funds’ total income. Under the intermediate assumptions, the Social Security Trustees project that income taxes will grow to 6.1% of income in 2029.

The additional income taxes paid by taxpayers filing as single with provisional income greater than \$34,000 and taxpayers filing a joint return with provisional income greater than \$44,000, who pay tax on up to 85% of their Social Security benefits, are credited to the HI trust fund. Income to the HI trust fund from the taxation of benefits was \$23.8 billion in 2019, or 7.4% of total HI trust fund income. Under the intermediate assumptions, the Medicare Trustees project that income taxes as a share of total revenue will increase to 13.3% in 2029.

Note that the 2020 intermediate assumptions reflect the Board of Trustees’ understanding of Social Security and Medicare at the start of 2020; they do not include potential effects of the Coronavirus Disease 2019, or COVID-19.

## Have Bills Been Introduced to Change the Taxation of Social Security Benefits?

Four bills have been introduced in the 116<sup>th</sup> Congress that would alter the taxation of Social Security benefits.

H.R. 567, the Save Social Security Act of 2019, would replace the current-law provisional income thresholds with a single threshold and would tax up to 85% of Social Security benefits for taxpayers filing as single or filing a joint return with provisional income greater than \$100,000. If enacted, H.R. 567 would result in less income tax revenue for the Social Security and HI trust funds. To hold the funds harmless, general revenues would be appropriated in amounts required to make up the lost revenue.

H.R. 860 and S. 269, the Social Security 2100 Act, would replace the current-law provisional income thresholds with higher thresholds of \$50,000 for taxpayers filing as single and \$100,000 for taxpayers filing a joint return. Beneficiaries with provisional income above the thresholds would pay income taxes on up to 85% of their Social Security benefits. H.R. 860 and S. 269 would reduce the number of beneficiaries who pay federal income taxes on their Social Security benefits, leaving less income tax revenue for the Social Security trust funds (the HI trust fund would be held harmless).

H.R. 3971, the Senior Citizens Tax Elimination Act, would eliminate the federal income taxation of Social Security benefits. General funds would be appropriated in amounts needed to hold the Social Security and HI trust funds harmless from the loss of income tax revenues.

## For Additional Information

CRS Report RL32552, *Social Security: Taxation of Benefits*

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