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Social Security Benefit Taxation Highlights

At a Glance

- In August 2024, the Social Security system provided over $121.4 billion in monthly benefits to almost 68.1 million retired or disabled workers and their spouses, survivors, and dependents.
- Since 1984, beneficiaries with income above certain statutory thresholds are subject to federal income taxation on up to 50% of their Social Security benefits. Since 1993, beneficiaries with income above a higher set of statutory thresholds are subject to federal income taxation on up to 85% of their Social Security benefits.
- The proportion of beneficiaries who owe income tax on their Social Security benefits is rising.
- The overall share of Social Security benefits paid as federal income taxes rose from 2.2% in 1994 to 6.6% in 2022.
- In 2023, the Social Security trust funds were credited with $50.7 billion from the taxation of Social Security benefits, or 3.8% of the trust funds' total income. Also in 2023, income to the Medicare Hospital Insurance trust fund from the taxation of Social Security benefits was $35.0 billion, or 8.4% of the trust fund's total income.

Why Are Social Security Benefits Taxed?

Taxation of Social Security benefits began with the Social Security Amendments of 1983. There were two primary reasons for taxing Social Security benefits. The first was to improve tax equity by treating Social Security benefits more like other forms of retirement income and other income designed to replace lost wages. The second was to provide revenue to strengthen the financial solvency of the Social Security trust funds.

How Does Taxation of Social Security Benefits Work?

Taxable Social Security Benefits

Under current law, there is a statutory formula used to calculate the tax liability on Social Security benefits. The formula depends on the amount of a taxpayer's Social Security benefits, other income, tax filing status, and other factors. 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.

Generally, up to 85% of Social Security benefits may be taxable for recipients whose provisional income exceeds either of two statutory thresholds based on filing status:

- Taxpayers filing as single with provisional income less than $25,000 and taxpayers filing joint returns 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 joint returns 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 joint returns with provisional income greater than $44,000 pay federal income tax on up to 85% of their Social Security benefits.

Federal income tax liability on Social Security benefits increases with income.

- 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.

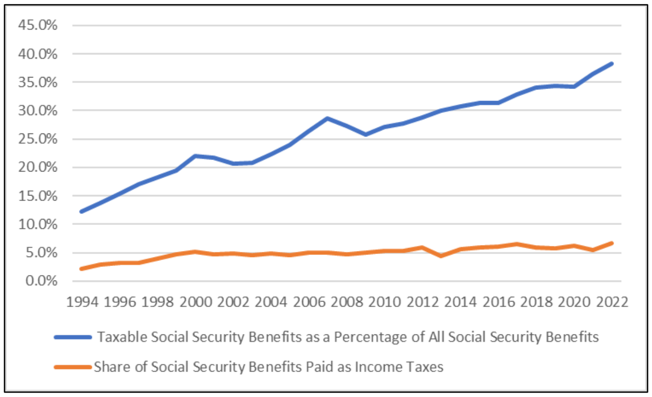
Who Is Affected by Social Security Benefit Taxation, and by How Much?

Around half of all Social Security beneficiaries do not pay federal income tax on their Social Security benefits. The Congressional Budget Office estimated that about half of Social Security beneficiaries paid income tax on their Social Security benefits in 2021. A 2015 Social Security Administration 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 intent behind using unindexed thresholds in the 1983 legislation was that eventually, over a long period of time, there would essentially be no thresholds and all Social Security benefits would become subject to taxation.

The taxable amount of Social Security benefits as a percentage of all Social Security benefit payments has grown from 12.2% in 1994 to 38.2% in 2022 (**Figure 1**, blue line). As the proportion of Social Security benefits that is taxable has risen, the taxes paid on Social Security benefits has also risen. For each dollar of Social Security benefits paid in 1994, approximately 2.2 cents were paid as federal income tax. This share of all Social Security benefits paid as federal income tax rose from 2.2% in 1994 to 6.6% in 2022, or 6.6 cents paid as income tax for each dollar of Social Security benefits. (**Figure 1**, orange line).

Figure 1. Taxation of Social Security Benefits, 1994-2022



Source: CRS calculations from Internal Revenue Service (IRS), Statistics of Income, Table A, and Individual Income Tax Returns, Preliminary Data, Tax Year 2022; Social Security Administration, Trust Fund Data, Table IV.A3; and Centers for Medicare and Medicaid Services Trustees Report and Trust Funds.

Notes: IRS data for 2022 are preliminary. Total Social Security benefits include payments for vocational rehabilitation services furnished to disability beneficiaries. Benefit amounts are reduced by the amount of reimbursement for unnegotiated benefit checks.

How Important Is Benefit Taxation to the Trust Funds?

The income taxes paid on the first 50% of Social Security benefits are credited to the Social Security trust funds. In 2023, this was $50.7 billion, or 3.8% of the Social Security trust funds' total income. Under their intermediate assumptions, the Social Security trustees project that income taxes as a share of total revenue will grow to 6.6% in 2033.

The income taxes paid on the next 35% of taxable Social Security benefits (from 50% to 85%) are credited to the HI trust fund. In 2023, this was $35.0 billion in 2023, or 8.4% of total HI trust fund income. Under their intermediate assumptions, the Medicare trustees project that income taxes as a share of total revenue will increase to 13.6% in 2033.

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

At the time of publication, six bills had been introduced in the 118th Congress that would eliminate or alter the taxation of Social Security benefits. Legislation to modify or repeal the taxation of Social Security benefits would amend Section 86 of the Internal Revenue Code.

Eliminate Social Security Benefit Taxation

H.R. 3206, the Senior Citizens Tax Elimination Act, would exclude all Social Security benefits from provisional income, thereby eliminating the federal income taxation of Social Security benefits. General revenues would be appropriated in amounts needed to hold the Social Security and HI trust funds harmless from the loss of income tax revenues.

Section 2 of H.R. 7084, the You Earned It, You Keep It Act, would exclude Social Security benefits from gross income for purposes of federal income taxes. 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.

H.R. 9359 would repeal the inclusion of Social Security benefits in gross income. The bill would also appropriate funds from the Treasury not otherwise appropriated to fund the Social Security, HI, and Railroad Retirement trust funds, holding them harmless.

Modify Social Security Benefit Taxation

Section 104 of H.R. 4583 and S. 2280, the Social Security 2100 Act, would replace the two-tier provisional income thresholds under current law with a single set of higher thresholds: $35,000 for taxpayers filing as single and $50,000 for taxpayers filing joint returns. Beneficiaries with provisional income above the thresholds would pay income taxes on up to 85% of their Social Security benefits. This provision 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.) These changes would apply to tax years 2025-2034.

S. 2800, the Social Security Check Tax Cut Act, would temporarily reduce the amount of Social Security benefits—except disabled worker benefits—and tier one Railroad Retirement benefits included in income for taxation. It would reduce the amount of those benefits that are taxable under current law by 10% for tax year 2024 and by 20% for tax year 2025. The taxation of Social Security disability benefits would be unchanged. 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*

Internal Revenue Service, *Publication 915 (2023), Social Security and Equivalent Railroad Retirement Benefits*

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