



ADDRESS TAXATION OF SOCIAL SECURITY BENEFITS

Social Security beneficiaries who exceed statutory income thresholds are taxed on a portion of their benefits. The income thresholds are not indexed for inflation or income growth, resulting in a greater proportion of beneficiaries' income being subject to tax over time.

BACKGROUND

Social Security provides monthly cash benefits to retired or disabled workers. These benefits have historically not been taxed. However, acting on recommendations from the National Commission on Social Security Reform (also known as the Greenspan Commission), Congress began taxing up to 50 percent of benefits for beneficiaries whose income exceeds a certain threshold in 1983. Congress increased this limit to 85 percent in 1993 as part of the Omnibus Budget Reconciliation Act.¹ These benefits are taxed at the taxpayers' marginal tax rates. Because Congress did not index the income threshold for factors such as inflation, the law negatively impacts an increasing number of beneficiaries over time.

According to the Congressional Budget Office, approximately 49 percent of beneficiaries were taxed on a portion of their benefits in 2014.² This amounts to approximately 25.5 million Americans. Revenue from the tax on benefits flows to Social Security's trust funds and Medicare's Hospital Insurance Trust Fund.³ In 2017, taxing Social Security benefits generated \$59.2 billion dollars in revenue.⁴

CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES

Congress has the constitutional authority to lay and collect taxes, including the ability to repeal taxes.⁵ As a matter of principle, the Federal Government should not tax benefits which are funded originally by taxes on a beneficiary's income.

POLICY SOLUTIONS

Congress should pass legislation raising the income threshold at which beneficiaries are subject to taxation, indexing it to inflation or income growth. Alternatively, Congress may consider repealing the tax outright. These changes should be considered as part of broader reforms to Social Security in order to bring financial stability to the program.

Quick Take

Nearly half of Social Security beneficiaries are taxed on a portion of their benefits. Taxes on these benefits are not indexed for inflation or income growth.

Congress should raise the income threshold at which beneficiaries are subject to taxation and index it to inflation or income growth.

Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.

¹ Julie Whittaker, Cong. Research Serv., RL32552, *Social Security: Calculation and History of Taxing Benefits* (2016).

² Joshua Shakin and Kurt Seibert, Cong. Budget Office, 49948, *The Taxation of Social Security Benefits* (2015).

³ Whittaker, *supra*, note 1.

⁴ Social Security and Medicare Boards of Trustees, Social Security Administration, *A Summary of the 2019 Annual Reports* (2019).

⁵ U.S. Const. art. I, § 9, cl. 1.