

H

Provisions Affecting Taxation of Benefits

These provisions revise the current rules for subjecting Social Security benefits to personal income tax. For each provision, we provide an estimate of the financial effect on the OASDI program over the long-range period (the next 75 years) and for the 75th year. We base all estimates on the intermediate assumptions described in the 2016 Trustees Report.

Category H: Taxation of Benefits (2016 Trustees Report intermediate assumptions)

Present law shortfall in long-range actuarial balance is **2.66** percent of payroll and in annual balance for the 75th year is **4.35** percent of payroll.

Description of proposed provisions		Change from present law (percent of payroll)		Shortfall eliminated	
		Long-range actuarial balance	Annual balance in 75th year	Long-range actuarial balance	Annual balance in 75th year
H1	Starting in 2017, tax Social Security benefits in a manner similar to private pension income. Phase out the lower-income thresholds during 2017-2026.	0.21	0.15	8%	3%
H2	Starting in 2017, tax Social Security benefits in a manner similar to private pension income. Phase out the lower-income thresholds during 2017-2036.	0.19	0.15	7%	3%
H3	Starting in 2018, modify personal income tax by: (a) establishing two-brackets with marginal rates of 15 and 27 percent separated at \$51,000 (CPI indexed); (b) creating a non-refundable credit for low-income tax filers age 65 and older; and (c) treating capital gains as regular income. Tax all Social Security benefits at the applicable marginal rate (15 or 27 percent) less 7.5 percent, with 60 percent of this revenue going to OASDI and 40 percent going to HI.	-0.02	-0.06	-1%	-1%
H4	Increase the threshold for taxation of OASDI benefits to \$50,000 for single filers and \$100,000 for joint filers starting in 2018. Taxation of benefits revenues transferred to the Hospital Insurance (HI) Trust Fund would be the same as if the current-law computation applied.	-0.12	-0.01	-4%	0%
H5	Beginning in 2023, for single/head-of-household/married-filing-separate taxpayers with MAGI of \$250,000 or more and joint filers with MAGI of \$500,000 or more, include up to the remaining 15 percent of Social Security benefits in taxable income (increased from up to 85 percent of benefits taxable under current law). In subsequent years, update these thresholds for growth in wages (AWI). Revenue from this provision would be credited to the Social Security trust funds. Current law taxation of up to 85 percent of Social Security benefits would remain unchanged.	0.01	0.01	0%	0%
H6	Eliminate federal income taxation of OASDI benefits that is credited to the OASI and DI Trust Funds for 2054 and later. Phase out OASDI taxation of benefits by increasing relevant "income" thresholds from 2045 through 2053 as follows, for single/joint tax filers: (a) 2045 = \$32,500/\$65,000; (b) 2046 = \$40,000/\$80,000; (c) 2047 = \$47,500/\$95,000; (d) 2048 = \$55,000/\$110,000; (e) 2049 = \$62,500/\$125,000; (f) 2050 = \$70,000/\$140,000; (g) 2051 = \$77,500/\$155,000; (h) 2052 = \$85,000/\$170,000; and (i) 2053 = \$92,500/\$185,000. Taxation of benefits revenues for the Hospital Insurance (HI) Trust Fund would be maintained at the same level as if the current-law computation applied.	-0.40	-0.96	-15%	-22%