

## To tax or not tax Social Security benefits

By Editorial Staff      Wed, Feb 26, 2025

*President Donald Trump's 2024 campaign trial-balloon statement 'reduces incentives to save and work while increasing federal debt,' the analysis by the Penn Wharton Budget Model found. 'Wages and GDP [would also] fall over time.'*

Eliminating taxes on Social Security benefits would reward high-income households nearing or in retirement but punish households under age 30 and all future generations across the entire income distribution, according to an [analysis](#) by the Penn Wharton Budget Model. President Donald Trump's 2024 campaign trial-balloon statement "reduces incentives to save and work while increasing federal debt," the analysis found. "Wages and GDP [would also] fall over time."

Some high-income households would gain more than \$100,000 in remaining lifetime welfare from the policy change, but those under age 30 would be worse off, with newborn households losing about \$10,000 in lifetime welfare.

The research showed that:

- Eliminating income taxes on Social Security benefits would reduce revenues by \$1.5 trillion over 10 years and increase federal debt by seven percent by 2054.
- The projected depletion date of the Social Security Trust Fund would accelerate from December 2034 to December 2032.
- Incentives to save and work are reduced along with rising federal debt.
- Relative to the baseline, the capital stock falls by one percent in 2034 and 4.2% in 2054.
- Average wages fall by 0.4 percent in 10 years and by 1.8% by 2054. GDP falls by 0.5 percent in 10 years and by 2.1% by 2054.

The analysis assumed, in the absence of any details about the potential policy change, that it would entail "a full removal of benefits taxation starting in 2025 (retroactively applied) and permanent."

### **Effects of 1983 and 1993 law**

Social Security benefits have been taxed for about 40 years. The *Social Security Amendments of 1983* introduced the taxation of Social Security benefits for the first time. The *Omnibus Budget Reconciliation Act of 1993* introduced a second tier of taxation. An individual's combined income determines the share of an individual's Social Security benefits that are subject to income taxation. The legislative changes were primarily aimed at improving the financial stability of Social Security.

Tax brackets in detail:

- Beneficiaries with combined income below \$25,000 (\$32,000 for joint filers) pay no taxes on their benefits.
- Those with combined income between \$25,000 and \$34,000 (\$32,000 to \$44,000 for joint filers) are taxed on up to 50 percent of their benefits.
- Individuals with combined income above \$34,000 (\$44,000 for joint filers) are taxed on up to 85 percent of their benefits.

These income limits are not indexed for inflation. As incomes rise due to inflation, more people may find their Social Security benefits subject to taxation.

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