



The "Logic" of Taxing Social Security Benefits By Jordan Cash

For its first fifty years Social Security was exempt from federal income tax. However, the Social Security Amendments of 1983 subjected benefits to taxation by state and federal governments. This first change taxed up to 50 percent of benefits for those making \$25,000 a year individually, or \$32,000 a year for couples. In 1993, this was expanded so individuals making \$34,000 a year or couples making \$44,000 a year would have 85 percent of their benefits subject to tax.¹

Nebraska is one of only six states that, like the federal government, taxes Social Security as income.² After 2014, Nebraska will be alone among neighboring states in taxing Social Security, as Iowa will phase out taxing benefits in 2012, and Missouri will do the same in 2014.³ A 2009 bill in the Nebraska legislature, which would have phased out income tax on Social Security benefits, was deemed too costly and stalled in committee.⁴

On the federal level, the revenue from Social Security benefit taxes accounted for only 2.1 percent of the total Social Security Trust Fund in 2008, or \$16.9 billion dollars, and raided the benefits of 39 percent of recipients, around 16.9 million people.⁵ This tax took, on average, \$1,000 away from senior citizens under the guise of "income tax."

Because the taxes on Social Security benefits are based on income, it hits those with outside retirement accounts or pensions especially hard.⁶ Seniors who saved for years or worked with their employer to arrange for a pension, all while paying into Social Security, are now taxed simply for not relying solely on Social Security payments.

Taxing Social Security income is a double tax on seniors. They paid into the system for years and once they finally receive their benefits they are taxed again. If state income tax is added, it is almost as if the original income is taxed three times. The result is a reduction in benefits even while clever politicians may claim benefits are the same. Congressman Ron Paul—in an effort to repeal the federal tax on social security benefits—noted that forcing income tax on retirement benefits of senior citizens was little more than "an accounting trick," and a reduction of benefits "by subterfuge."⁷ The government pays out the same amount of money, but the result for seniors is a smaller benefit check.

Congress now owes \$2.61 trillion to the Social Security Trust Fund,⁸ and Social Security has already begun paying out more money than it takes in.⁹ Also, for millions of younger workers, Social Security will return one percent or less of their investment unless something is

done to make the system solvent.¹⁰

While the federal income taxes on benefits and Congressional plundering of the Social Security Trust Fund remain issues beyond the reach of Nebraska policymakers, Nebraska could take proactive steps to alleviate the tax burden on our seniors by phasing out income taxes on Social Security benefits. By doing this, Nebraska would end the dubious practice of double or triple taxation that is now inflicted upon our seniors. Taxing Social Security benefits is illogical and borders on the immoral, as hard-working seniors paid into the system their entire lives only to have more of their earnings snatched away from them by the taxman.

¹ Christine Scott and Janemarie Mulvey, *Social Security: Calculation and History of Taxing Benefits*, (Congressional Research Service, January 15, 2010), 2. Accessed June 25, 2011: <http://aging.senate.gov/crs/ss24.pdf>.

² Minnesota House of Representatives House Research, "Taxation of Social Security Benefits." (February 2011). Accessed June 26, 2011: <http://www.house.leg.state.mn.us/hrd/issinfo/sstaxes.htm#1S>.

³ Tonya Moreno, "State Income Taxes in Retirement: Income Tax Breaks for Retirees." About.com 2011. Accessed June 26, 2011: <http://taxes.about.com/od/statetaxes/a/State-Income-Taxes-In-Retirement.htm>.

⁴ Nebraska Legislature, "LB 303: Exempt social security benefits from income tax." Accessed June 26, 2011: http://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=-6850.

⁵ Scott and Mulvey, 2.

⁶ Rachel L. Sheedy, "Strategies to Reduce Taxes on Social Security." Kiplinger Retirement Report, September 1, 2010. Accessed June 27, 2011: <http://www.kiplinger.com/features/archives/krr-strategies-to-reduce-taxes-on-social-security.html>.

⁷ Congressman Ron Paul (R-TX), U.S. House of Representatives floor speech, May 22, 2002. Accessed June 30, 2011: <http://the-classical-liberal.com/stop-taxing-social-security-benefits/>.

⁸ Lawrence A. Hunter, "Replenish The Social Security Trust Fund By Cutting Other Spending." Forbes.com, January 24, 2011. Accessed July 5, 2011: <http://www.forbes.com/2011/01/21/social-security-trust-fund-retirement-opinions-contributors-lawrence-hunter.html>.

⁹ Bill Frezza, "Not In 25 Years, Social Security Is Bankrupt Now." RealClearMarkets.com, August 9, 2010. Accessed July 6, 2011: http://www.realclearmarkets.com/articles/2010/08/09/not_in_25_years_social_security_is_bankrupt_now_98611.html.

¹⁰ Hunter, Forbes.com, January 24, 2011.



