

Taxation of Social Security Benefits

House Ways and Means Committee

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Brief overview

- Funded through payroll taxes (FICA and SECA)
- Covers retirees, survivors, and individuals with disabilities.
- Who receives retirement benefits?
 - Must have worked at least 40 quarters (10 years)
 - Must be age 62 or older; benefit reduced if less than full retirement age (66 currently, rises to 67 by 2027)
- Who receives disability benefits?
 - Must have worked some number of quarters, depending on age, and have a severe disability that limits ability to work for at least 12 months.
- How big is the benefit?
 - Depends on the amount of earnings during highest 35 years of work
 - For retirement benefits, size of benefits depend on age at which benefits are claimed.

Total vs. Taxable Social Security Benefits

- Total social security benefits=the amount received from the SSA
- Taxable social security benefits
 - Federal government allows a certain percentage of benefits to be exempted from taxation.
 - At least 15% of the benefits are exempted and up to 100% may be exempt depending on the taxpayer's combined income and filing status

Federal Taxation Social Security Benefits

- **“Combined income”**= Adjusted Gross Income + nontaxable interest +1/2 of Social Security benefits.
 - Income thresholds do not grow with inflation.

Federal Taxation of Social Security Benefits

Combined Income		% of Social Security Benefits exempt
Single	Married Filing Joint	
< \$25,000	< \$32,000	All 100% Exempt
\$25,001 - \$34,000	\$32,001 - \$44,000	Up to 50% Exempt
\$34,001 and over	\$44,001 and over	At least 15% exempt and up to 50% exempt

Source: Social Security Administration (<https://www.ssa.gov/planners/taxes.html>)

What do other states do?

- 9 with no state individual income tax
- 28 with a full exemption of SSB
- 5 with no exemption beyond Federal exemption
- 8 with a partial exemption

What do other states do?

Tax Treatment of Social Security Benefits	State
No State Income Tax (9)	Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming (Note NH and TN tax interest and dividend income)
Social Security Benefits Exempt (28 and DC)	Alabama, Arizona, Arkansas, California, Delaware, DC, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin
Same as Federal (5) based on income level	Minnesota, New Mexico, North Dakota, Vermont and West Virginia
Partial Exemption (8) based on income level or age	Colorado, Connecticut, Kansas, Missouri, Montana, Nebraska, Rhode Island, and Utah

Partial Exemption State Details

State	Social Security Benefits Tax Treatment
Colorado	Age 55-64 up to \$20,000 pension income – including SS benefits -- are exempt. Age 65+ up to \$25,000 pension income – including SS benefits -- are exempt.
Connecticut	AGI < \$60K MFJ and \$50K single no tax on Social Security benefits AGI > than those thresholds exempt the difference between the amount included for federal income tax purposes and the lesser of 25% of the excess of the taxpayer's MAGI
Kansas	AGI < \$75K all Social Security benefits exempt
Missouri	AGI <\$100K MFJ and \$85K Single all Social Security benefits exempt
Montana	AGI < \$25K Single; \$32K HOH and MFJ all SS benefits exempt
Nebraska	AGI < \$43K Single; \$58K MFJ all Social Security benefits exempt
Rhode Island	AGI < \$80K Single; HOH or Separate; \$100K MFJ all SS benefits exempt
Utah	Utah taxpayers may be able to claim a retirement tax credit of up to \$450 under age 65 and \$900 over age 65. Previously, an income exclusion was allowed taxpayers age 65 or over, and a deduction of retirement income received was allowed taxpayers under the age of 65. The credit will be phased out by a percentage of the excess modified gross income, over a certain amount based on filing status.

Social Security Beneficiaries in VT

Social Security Beneficiaries in Vermont as of December 2016				
	Dec-13	Dec-16	Change	% Change
Total	138,418	144,889	6,471	4.7%
Retirement				
Retired workers	92,111	99,547	7,436	8.1%
Spouses	4,505	4,881	376	8.3%
Children	1,412	1,474	62	4.4%
Survivors				
Widow(er)s and parents	8,859	8,264	-595	-6.7%
Children	3,598	3,551	-47	-1.3%
Disability				
Disabled workers	22,534	22,325	-209	-0.9%
Spouses	258	234	-24	-9.3%
Children	5,141	4,613	-528	-10.3%
VT population	626,044	623,354	-2690	-0.4%
Share of VT population with benefits	22.1%	23.2%		
Source: U.S. Social Security Administration OASDI Beneficiaries by State and County, 2016 https://www.socialsecurity.gov/policy/docs/statcomps/oasdi_sc/2016/				

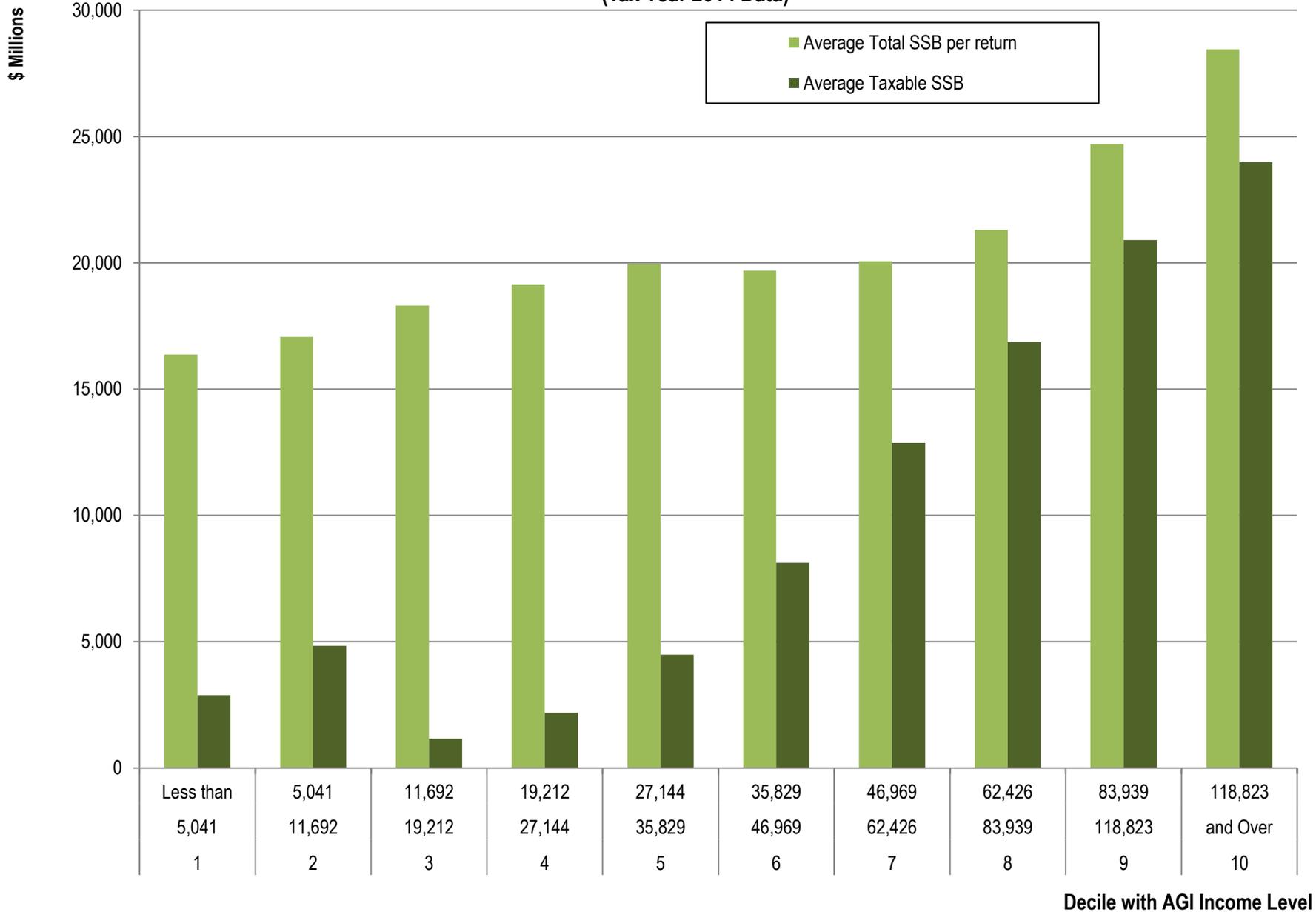
Tax Year 2014 Data

Vermont Income Tax on Social Security Benefits

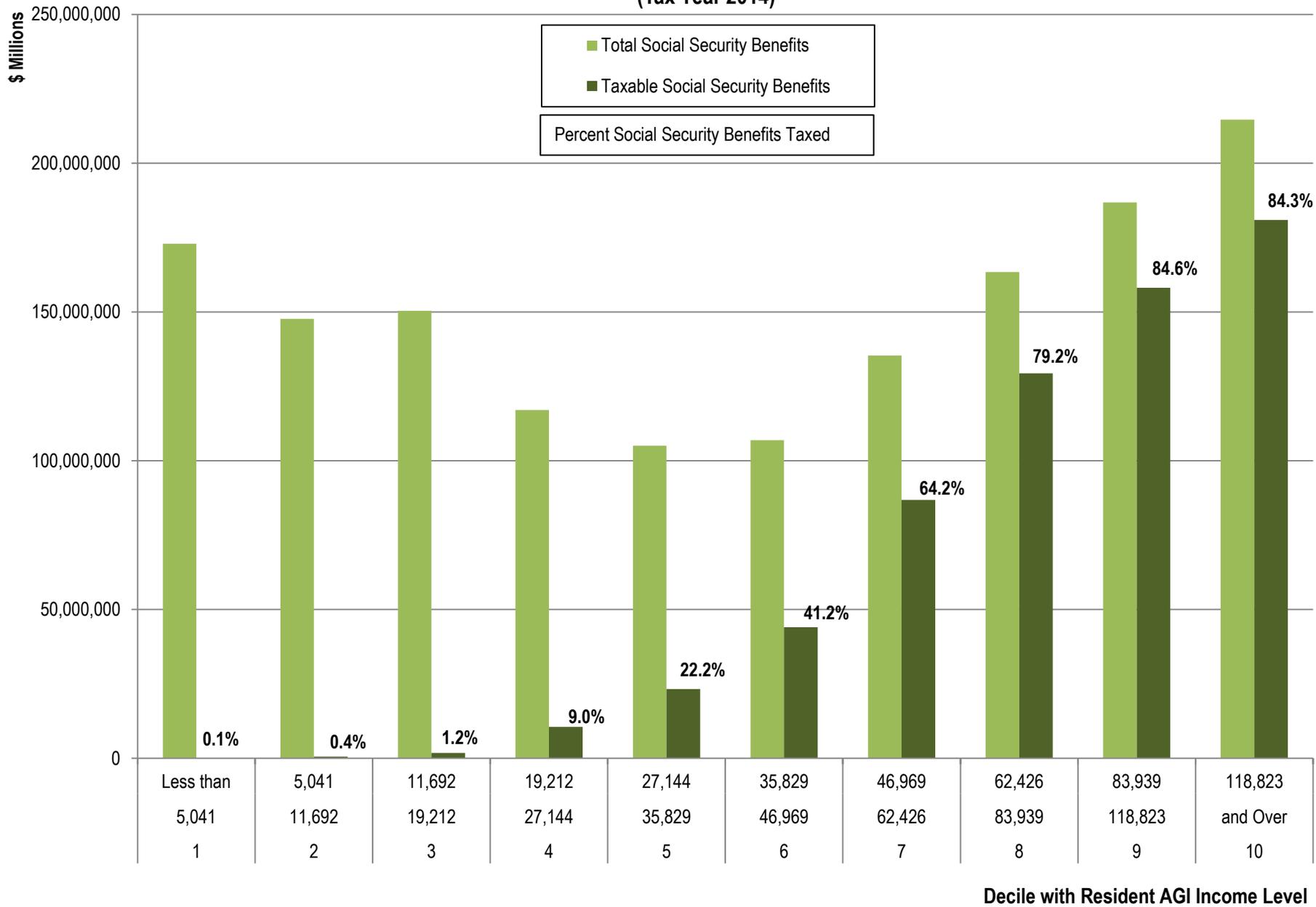
<i>Resident Details by Decile</i>				Total Social Security Benefits (SSB)			Taxable Social Security Benefits						
Decile	AGI Range Resident Taxpayers		Total # Returns	# with SSB	Total SSB	Average Total SSB per return	# Pay Tax on SSB	Taxable SSB	Average Taxable SSB	Total Tax Paid on SSB	Average Tax Paid	% SSB Taxable	% Returns with SSB that Pay Tax
1	Less than	5,041	37,604	10,570	172,978,609	16,365	34	97,888	2,879	30	1	0.1%	0.3%
2	5,041	11,692	37,603	8,654	147,662,026	17,063	109	526,884	4,834	227	2	0.4%	1.3%
3	11,692	19,212	37,603	8,219	150,427,491	18,302	1,584	1,834,908	1,158	18,081	11	1.2%	19.3%
4	19,212	27,144	37,603	6,120	117,031,526	19,123	4,839	10,558,862	2,182	208,773	43	9.0%	79.1%
5	27,144	35,829	37,603	5,266	105,040,871	19,947	5,194	23,283,001	4,483	515,895	99	22.2%	98.6%
6	35,829	46,969	37,603	5,430	106,896,304	19,686	5,428	44,075,266	8,120	1,368,645	252	41.2%	100.0%
7	46,969	62,426	37,603	6,746	135,332,627	20,061	6,746	86,817,824	12,870	3,075,923	456	64.2%	100.0%
8	62,426	83,939	37,603	7,674	163,449,926	21,299	7,674	129,396,413	16,862	5,232,468	682	79.2%	100.0%
9	83,939	118,823	37,603	7,565	186,817,100	24,695	7,566	158,131,283	20,900	7,371,453	974	84.6%	100.0%
10	118,823 and Over		37,608	7,545	214,669,110	28,452	7,545	180,918,760	23,979	11,489,910	1,523	84.3%	100.0%
Resident Totals			321,806	73,789	1,500,305,590	20,332	46,719	635,641,089	13,606	30,374,502	650	42.4%	63.3%
Non Resident Totals			54,230	7,018	171,319,543	24,411	5,863	111,115,593	18,952	1,093,096	186	64.9%	83.5%
Total all Tax Returns			376,036	80,807	1,671,625,133	20,687	52,582	746,756,682	14,202	31,467,599	598	44.7%	65.1%

Note: These data represent tax returns, not individuals or households. A tax return could include more than one Social Security Beneficiary.

Average Vermont Social Security Benefits Per Return (Tax Year 2014 Data)

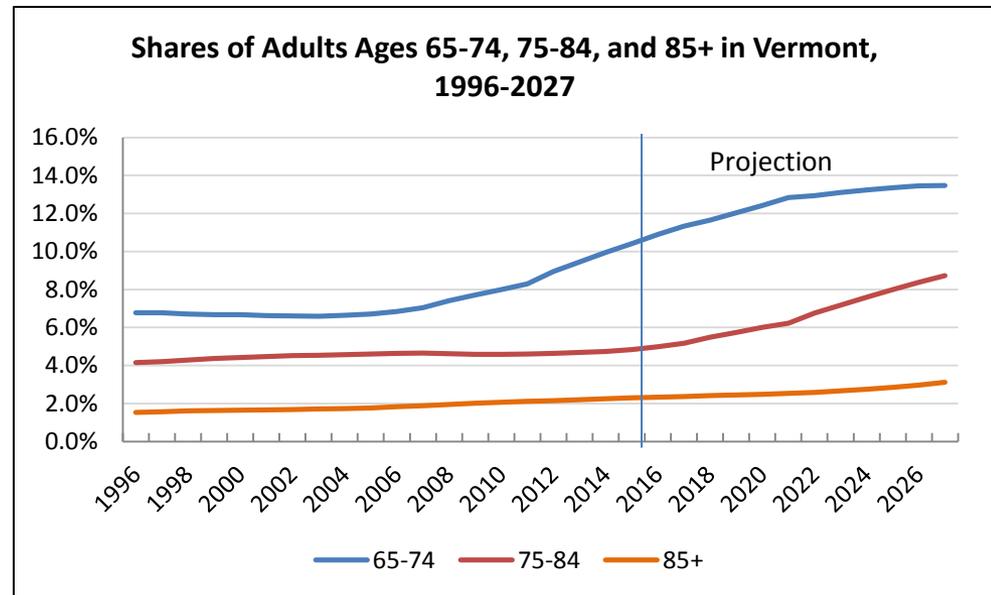


Total Vermont Social Security Benefits (Tax Year 2014)



Important considerations

- Vermont has an aging population
 - Social security beneficiaries and total amount of benefits will grow.
- Rising real incomes over time mean that new beneficiaries will likely have larger benefits.
- As incomes grow over time, the Federal exemption will decrease.



Preliminary Estimates of SSB in TY2018

- At least \$36 million in VT revenues from Social Security Benefits
 - Estimate is likely biased downward
 - Rising real incomes leading to higher benefit levels in the future, lower Federal exemption.
 - \$50,000-\$100,000 group likely represents those with supplemental retirement income (IRAs, 401ks) but do not receive much exemption at Federal level

Federal AGI		Percent of Returns in 2014	Estimated
Less Than	\$10,000	37.4%	0.65
	\$10,000 \$25,000	16.8%	2.36
	\$25,000 \$50,000	18.2%	6.61
	\$50,000 \$100,000	16.7%	13.46
	\$100,000 \$125,000	3.2%	3.56
	\$125,000 \$150,000	1.9%	2.01
	\$150,000 \$200,000	2.1%	2.57
	\$200,000 \$300,000	1.6%	2.23
	\$300,000 \$500,000	1.0%	1.30
	\$500,000 \$1,000,000	0.6%	0.60
	\$1,000,000 \$10,000,000	0.5%	0.34
	\$10,000,000 Greater Than	0.1%	0.00
Total VT PIT Revenue from SSB Benefits			35.69

Additional Resources

- JFO Issue Brief, October 2016

http://www.leg.state.vt.us/jfo/issue_briefs_and_memos/2016-10%20Social%20Security%20Benefits.pdf

- Social Security Administration Benefits Calculation

<https://www.ssa.gov/oact/progdata/retirebenefit1.html>