



VERMONT LEGISLATIVE
Joint Fiscal Office

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Issue Brief

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How Vermont Taxes Social Security Benefits in 2025

Executive Summary

The number of Vermonters who receive Social Security benefits and the amount of benefits they receive have grown significantly over the past 10 years. However, through exemptions on this type of income at both the federal and State level, much of the Social Security Income (OASDI) received by those recipients is exempt from Vermont income taxes. Vermont is one of 10 states that offer exemptions on Social Security income for filers below certain income thresholds while the remaining 40 states either fully exempt the income or do not have personal income taxes. Households with combined incomes below \$50,000 pay little to no Vermont tax on their benefits because the State's exemptions on Social Security income are targeted at low- and moderate-income Vermonters.

For beneficiaries with lower incomes, and especially those relying primarily on Social Security for their income, all or most Social Security benefits are exempt from federal and State taxation, even in the absence of a Vermont-specific exemption.

What is Social Security?

While Social Security is often the name associated with the social insurance program that provides a monetary benefit to those who have retired, it is known more formally as the Old Age, Survivors, and Disability Insurance program (OASDI). The program pays benefits to retirees, disabled people, and the survivors and dependents of those recipients, including spouses and children. The program is funded through a federal payroll tax on wages and salaries. Employed individuals and their employers each pay 6.2 percent of covered wages while the self-employed pay 12.4 percent of covered wages.¹

To receive retirement benefits, an individual must have worked at least 40 quarters, earning at least a threshold amount in each quarter.² They must be age 62 or older to receive any benefits. To receive “full” benefits, an individual must claim benefits at their full retirement age, currently between ages 66 and 67. If they claim benefits before reaching full retirement age, the benefit is reduced; enhanced benefits are paid to those who claim after their full retirement age.

¹ In 2024, covered wages were those up to \$168,000. Wages above that amount are not subject to the federal payroll tax.

² Social Security Administration, How You Become Eligible for Benefits, <https://www.ssa.gov/myaccount/assets/materials/EN-05-10703.pdf>

To receive disability benefits, an individual must first qualify as disabled, defined as being mentally or physically unable to perform gainful work for at least 12 months. In addition, they must have worked some number of quarters, depending on age. Generally, this is 10 years of work starting for people at age 31 but is less for younger workers.

Family members of Social Security beneficiaries may also be eligible for survivor benefits. Eligible survivors include a beneficiary's widow/widower, unmarried children under the age of 18, older disabled children, and dependent parents. The benefits a survivor receives are based upon the benefits of the deceased individual and other factors. For instance, the benefits for surviving spouses are 100 percent if the widow/widower first claims benefits at full retirement age. For minor children, generally the benefit is 75 percent of the deceased's benefit.³

Taxation of Social Security Income

The amount a Vermont filer owes in State income taxes on their Social Security benefits depends on the filer's total combined income. Vermonters with Social Security income benefit from two exemptions:

- An exemption of a portion of the benefits from taxation at the federal level; and
- A further Vermont-specific exemption on top of that federal exemption.

Federal Tax Treatment of Social Security Income

At the federal level, only a portion of total Social Security benefits are included in total income and Adjusted Gross Income (AGI) for tax purposes. The first 15 percent of benefits are nontaxable for everyone. For taxpayers with low incomes, 100 percent of benefits are exempt (see Table 1).

How much is exempt federally depends upon the taxpayer's "combined income." Combined income is defined as the sum of wages, self-employment income, interest, dividends, nontaxable interest, and one-half of their Social Security benefits. The percentage of benefits that is subject to the federal income tax is shown in the table below.

<i>Combined Income</i>		<i>Share of Social Security Benefits that are Exempt</i>
Single Filer	Married Filer Filing Jointly	
<\$25,000	<\$32,000	100%
\$25,001-\$34,000	\$32,001-\$44,000	At least 50%
\$34,001 and over	\$44,001 and over	At least 15% and up to 50%

Source: Internal Revenue Service: <https://www.irs.gov/faqs/social-security-income>

State Tax Treatment of Social Security Income

Since Vermont uses AGI as its starting point for State income tax calculations, Social Security benefits that are taxed at the federal level are included in the State taxable income base. This also means the tax exemption at the federal level flows through to Vermont. In other words, even without a Vermont-specific exemption, all Vermonters that receive Social Security payments receive a federal and a Vermont tax exemption of at least 15 percent of their benefits. For beneficiaries with lower incomes, and especially those relying primarily on Social Security for their income, all or most Social Security benefits are exempt from federal and State taxation, even in the absence of a Vermont-specific exemption.

In addition to this, Act 11 of 2018 fully exempted Social Security benefits from taxation for single filers with AGI below \$45,000 and married filers with AGI below \$60,000. Act 138 of 2022 increased the threshold amounts for both single and married filers by \$5,000, to \$50,000 and \$65,000, respectively. Over the next \$10,000 of income, the exemption is phased out. In other words, **Vermont does not tax Social Security benefits unless the filer has an AGI of at least \$50,000 (single) or \$65,000 (married).**

³ Social Security Administration, Benefit Types, https://www.ssa.gov/benefits?gad_source=1

Single taxpayers with combined incomes above \$60,000 and married taxpayers with combined incomes above \$75,000 do not receive any Vermont-specific exemption but still benefit from the federal exemption that flows to Vermont, which is at least 15 percent of benefits.

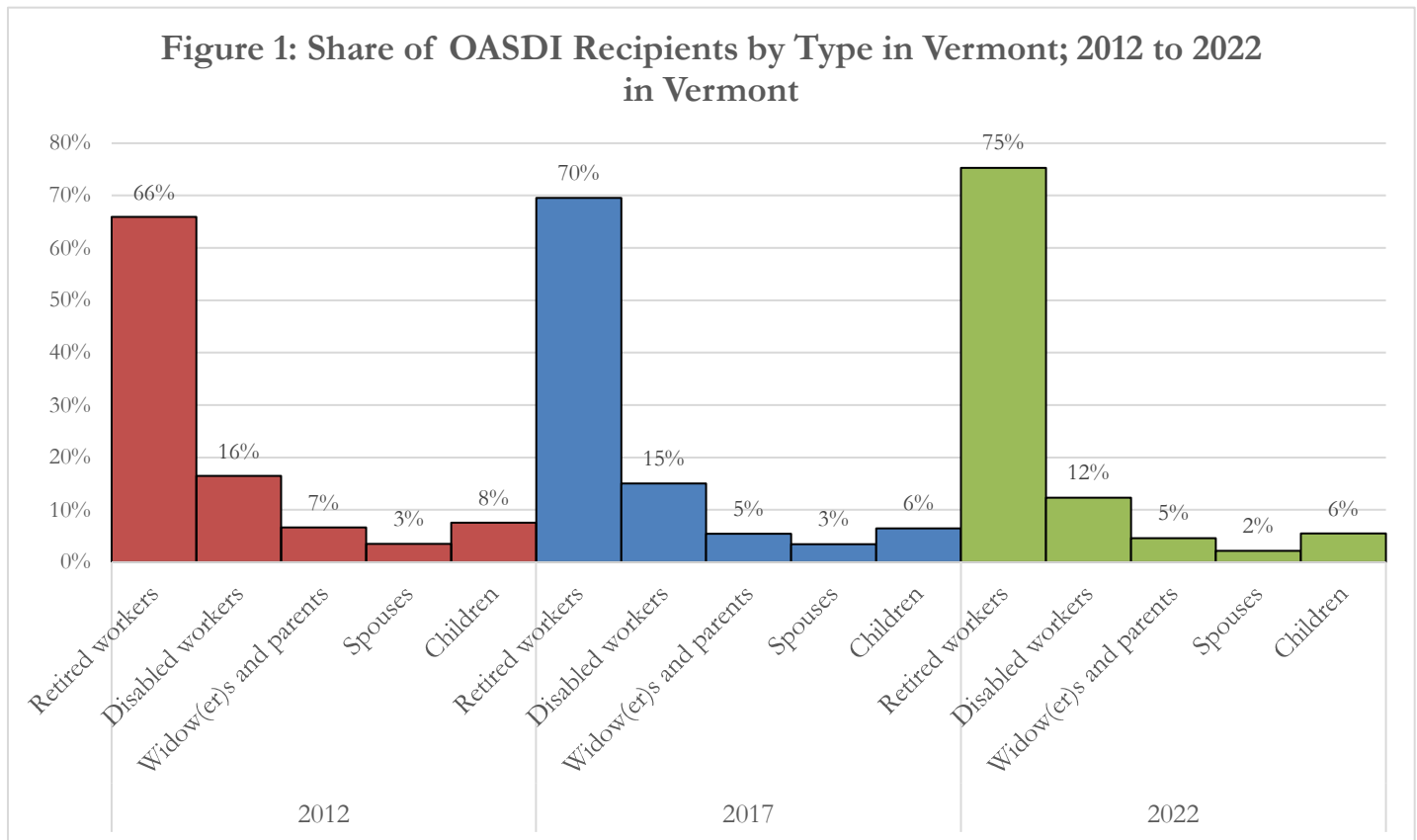
Table 2: Vermont Tax Exemption for Social Security Benefits		
Combined Income		Share of Social Security Benefits that are Exempt
Single Filer	Married Filer Filing Jointly	
<\$50,000	<\$65,000	Full
\$50,001-\$60,000	\$65,001-\$75,000	Partial
\$60,001 and over	\$75,001 and over	None

Source: Vermont Department of Taxes, <http://tax.vermont.gov/individuals/income-tax-returns/social-security-exemption>

Social Security Benefits in Vermont

From 2012 through 2022, the number of retired Social OASDI recipients in Vermont grew by approximately 34.5 percent, while total OASDI recipients in the state only grew 17.7 percent. This occurred because retired workers were the only cohort that saw growth over that time period. All other recipient types decreased. As seen in Figure 1, this pushed the share of retired workers receiving OASDI from approximately 66 percent of total recipients in 2012 to 75 percent in 2022. Over this time period, all other types of recipients decreased in number. The number of retired Social Security recipients increased by 30,852 from 2012 to 2022 while all other recipient types decreased by 6,874 (a net increase of 23,978).⁴

Source: Social Security Administration, OASDI Beneficiaries by State and County 2012-2022



⁴ For more information, please see Vermont Population Estimates for 2023 on the JFO website: https://ljfo.vermont.gov/assets/Publications/Issue-Briefs/Issue_Brief_VT_Demographics_in_2023.pdf

Vermont's shifting demographics are well documented, including in a 2024 report from the Joint Fiscal Office (JFO) that showed that the state's population continued to age from 2020 to 2023.⁵ As seen in Table 3, from 2020 to 2023 Vermont added approximately 4,528 net new residents. At the same time, the working age population (ages 18 to 64) decreased while the retirement age population increased. This demographic trend is compounded by a decline in birthrates. The median age of Vermont residents increased over that time period, as well. In 2012, the median age for Vermont residents was 41.7. By 2022, it had increased to 42.9.⁶ Looking to the future, another large age cohort, Vermonters ages 55-64, is quickly approaching retirement age and will become eligible for OASDI benefits in the coming years.

	2020	2023	Change	Percentage Change
0-17	118,646	114,636	-4,010	-3.4%
18-24	64,678	63,515	-1,163	-1.8%
25-39	115,855	117,824	1,969	1.7%
40-54	116,116	116,552	436	0.4%
55-64	97,907	91,814	-6,093	-6.2%
65-79	102,756	113,524	10,768	10.5%
80+	26,978	29,599	2,621	9.7%
Total	642,936	647,464	4,528	0.7%

Source: U.S. Census Bureau, estimates as of July 1 based on 2020 Decennial Census and 2023 Population Estimates

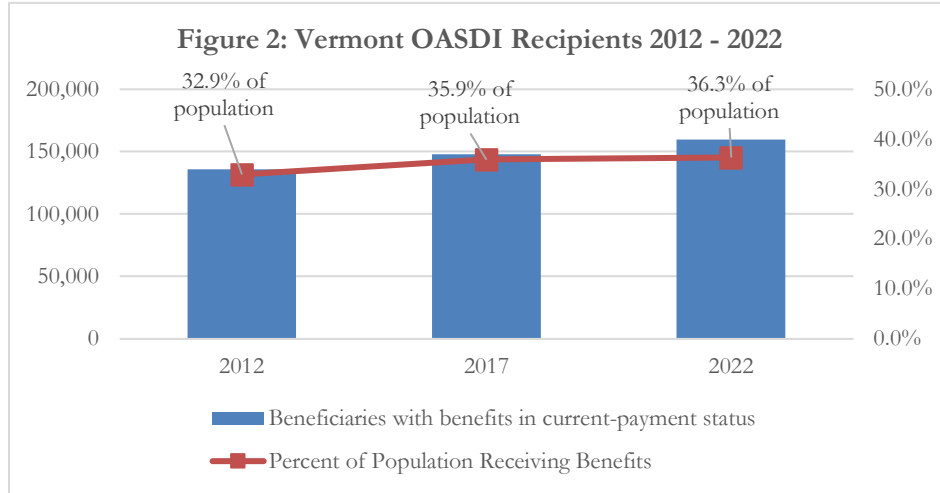
Data on Vermont Taxes on Social Security Income

The number of Social Security recipients in Vermont has grown steadily since 2012. As seen in Figure 2, as of 2022 there were 159,575 recipients in Vermont, an increase of approximately 8.1 percent from the 147,683 recipients in 2017. This is about 36.3 percent (up from 35.9 percent in 2017) of the total adult population – the third highest proportion in the country after West Virginia and Maine. As seen in Figure 3, a total of \$275.7 million in benefits were paid by the federal government in December 2022, 44 percent higher than in 2017 and 77 percent higher than in 2012.⁷

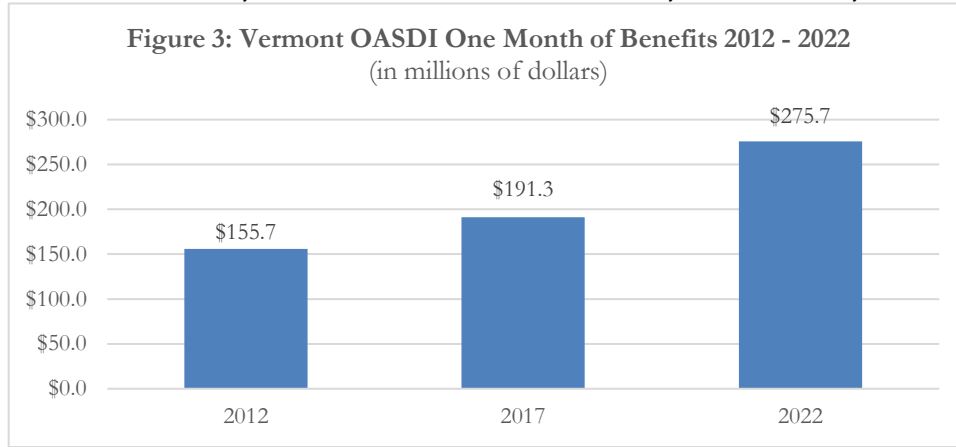
⁵ Joint Fiscal Office, Vermont's Population Estimates for 2023, https://ljfo.vermont.gov/assets/Publications/Issue-Briefs/Issue_Brief_VT_Demographics_in_2023.pdf

⁶ 2012 and 2022 American Community Survey 5-year Estimates.

⁷ Note, the Social Security Administration only publishes state by state benefits payments for the month of December each year. If annualized, it is estimated that Vermonters received \$3.3 billion in OASDI benefits in 2022.



Source: Social Security Administration, OASDI Beneficiaries by State and County 2012-2022



Source: Social Security Administration, OASDI Beneficiaries by State and County 2012-2022

The number of beneficiaries and size of benefits paid are growing quickly as a result of two primary factors. First, Vermont’s population is aging. Second, the size of benefits grows with each new cohort of retirees every year. Benefits are tied to an individual’s wages over their working career. As a result, newer retirees have larger benefits because wages on average grow with inflation and the economy over time.

From 2012 to 2022 the number of beneficiaries in Vermont has increased by approximately 17.7 percent while the total value of benefits paid to Vermonters has increased approximately 77.1 percent. Average benefits have also increased by approximately 50.5 percent over that time.⁸ While the number of beneficiaries has increase significantly since 2012, the effect of inflation and the corresponding annual cost of living increases has been the strongest driver of increased total OASDI income statewide.

One example of the growth in benefits can be seen looking at tax years from 2013 to 2024 – the amount of Vermont income tax collected on Social Security benefits nearly doubled over that time even with the State exemption that was added in 2018 and expanded in 2022.⁹ JFO estimates that Vermont collected \$29.7 million from Social Security benefits in tax year 2013.¹⁰ **For tax year 2024, JFO estimates that Vermont will collect \$61.5 million in taxes from Social Security benefits, \$59.7 million of which is from resident tax returns.**

⁸ Social Security Administration, OASDI Beneficiaries by State and County 2012-2022

⁹ The tax year is defined as January to December

¹⁰ [JFO published an Issue Brief on Social Security benefits in 2016](#)

Income Group		Tax Returns Collecting Social Security	Total Tax Paid on Social Security (in millions)	Average Tax Paid on Social Security Benefits
Negative	\$25,000	29,122	\$0.00	\$0
\$25,000	\$40,000	7,855	\$0.00	\$0
\$40,000	\$50,000	4,655	\$0.00	\$0
\$50,000	\$75,000	11,567	\$4.04	\$349
\$75,000	\$100,000	9,906	\$10.28	\$1,038
\$100,000	\$125,000	7,235	\$9.49	\$1,312
\$125,000	\$150,000	4,906	\$9.38	\$1,912
\$150,000	\$200,000	5,216	\$8.01	\$1,536
\$200,000	\$300,000	3,590	\$9.10	\$2,535
\$300,000	Infinity	2,604	\$9.43	\$3,621
Total		86,656	\$59.73	Average; \$689

A large share of Social Security recipients in the state pay no Vermont income tax on their benefits. JFO estimates that 86,656 tax returns will report Social Security benefits in tax year 2024. However, only 45,024 (52.0 percent) of these will pay any income tax on it. The State exemption thresholds are not adjusted for inflation like benefits payments are, so as benefits and combined income in general grow, so do expected taxes paid on those benefits. As Table 4 shows, tax filers with Social Security benefits and AGI below \$50,000 represent almost half of the total population of Vermont Social Security recipients. This group is estimated to pay either no or very little tax on their Social Security income in 2024. For the other half of tax returns that do pay tax on their Social Security income, the average tax paid on Social Security benefits is \$1,327. Among all tax returns that report Social Security income, Vermonters pay \$689 per return on average. This is due to the rapid phase-out of the Vermont exemption and Vermont's progressive tax rate structure.

Appendix: Taxation of Social Security Income in Other States

Forty states either have no state income tax or fully exempt Social Security benefits from it. Vermont is one of 10 states that partially tax Social Security benefits. A majority of states that offer a partial exemption offer a full exemption depending upon a taxpayer's income and, in some cases, age (Tables 5 and 6).

Exemption Type	States
No State Income Tax	Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, Wyoming, New Hampshire
Full Exemption or Not Included in Tax Base	Alabama, Arizona, Arkansas, California, Delaware, DC, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Mississippi, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, Wisconsin

State	Details
Colorado	Age 55-64 up to \$20,000 pension income - including SS Benefits - are exempt.
	Age 65+ are fully exempt.
Connecticut	Exemption for under \$75,000 single and \$100,000 married.
	For retirees with AGI above the thresholds 75% of benefits are tax exempt.
Kansas	Exemption for under \$75,000 in AGI regardless of filing status.
Minnesota	Full exemption if AGI is under \$78,000 if single and \$100,000 if married.
Montana	Full exemption if AGI is less than \$25,000 if single and \$32,000 if married.
New Mexico	Full exemption if AGI is less than \$100,000 if single and \$150,000 if married.
Rhode Island	Full exemption if taxpayer is 67+ <u>and</u> AGI is under \$95,800 if single and \$119,750 if married.
Utah	Taxpayers may be able to claim a retirement credit for taxes paid on SS benefits if their AGI is under \$45,000 if single and \$75,000 if married.
Vermont	Full exemption if AGI is under \$50,000 if single and \$65,000 if married.
West Virginia	Full exemption if AGI is under \$50,000 if single and \$100,000 if married.