A FISCAL FOOTNOTES BREAKDOWN

They Taxed It to Build It. Then They Taxed It Again.

Why your Social Security benefit gets taxed,
where the rule came from, and what the 2025 law really did.

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Context Creates Clarity

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For Almost Fifty Years, It Was Tax-Free

You worked your whole life. Every paycheck, a piece came out for Social Security. You saw it. FICA, right there on the stub. You paid that tax for forty years.

Then you retire. The benefit you paid for finally starts showing up. And the government taxes it again.

But it was not always like this.

For the first forty-eight years of Social Security, that benefit was completely tax-free. Not a penny of federal income tax. Your parents and your grandparents collected Social Security and never paid a dime of income tax on it. That was the deal.

So what changed? Who decided to start taxing the thing you already paid taxes to build? Let me walk you through it. Because once you see how this happened, you will understand why more retirees get caught by it every single year.

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Social Security began with the Social Security Act of 1935. It is funded by the FICA payroll tax, which you and your employer each pay half of. From the very beginning, the benefit itself was excluded from federal income tax. The Treasury Department made that official in rulings issued in 1938 and again in 1941, and the exclusion held for decades. (Source: Social Security Administration history archive.)

-- David, Fiscal Footnotes

What Changed: 1983 and the 50% Rule

Then we get to the 1980s. Social Security was running into trouble. The trust fund was getting thin, and there was real worry it could not pay its bills.

So they put together a commission to fix it. People call it the Greenspan Commission. And one of the things they came up with was this. Start taxing the benefit.

In 1983, President Reagan signed it into law. For the first time ever, up to half of your Social Security could be counted as taxable income.

Not for everybody. Only if your income went above a certain line. Twenty-five thousand dollars if you were single. Thirty-two thousand for a couple.

The 1983 Rule	Threshold	Where the Money Went
Up to 50% taxable (single)	$25,000	Social Security trust fund
Up to 50% taxable (couple)	$32,000	Social Security trust fund

And here is where the money went. Right back into the Social Security trust fund. The idea was, this keeps the program alive. So you can almost understand it. They were trying to save the thing.

FISCAL FOOTNOTE

The 1983 Amendments to the Social Security Act (Public Law 98-21) grew out of the Greenspan Commission. They made up to 50 percent of benefits taxable for people above $25,000 single or $32,000 joint. The income measured against those lines is a special figure, explained on the next page. The revenue was directed back to the Social Security trust funds. (Source: SSA Office of the Chief Actuary.)

It Got Bigger: 1993 and the 85% Rule

But it did not stop there. Ten years later, in 1993, under President Clinton, they added a second layer.

Now, for folks with higher income, it was not just half your benefit. It was up to eighty-five percent. New lines came with it. Thirty-four thousand if you were single. Forty-four thousand for a couple.

The 1993 Rule	Threshold	Where the Money Went
Up to 85% taxable (single)	$34,000	Medicare trust fund
Up to 85% taxable (couple)	$44,000	Medicare trust fund

And this time, the extra money did not go back to Social Security. It went to Medicare. So now you have got two layers, two sets of numbers, and a benefit that can be up to eighty-five percent taxable.

FISCAL FOOTNOTE

The 1993 Omnibus Budget Reconciliation Act (Public Law 103-66) added a second tier. Above $34,000 single or $44,000 joint, up to 85 percent of benefits can be taxable. The extra revenue from that second tier was directed to the Medicare Hospital Insurance trust fund, not to Social Security. (Source: SSA Office of the Chief Actuary.)

The Number That Decides It: Combined Income

Now, the lines you just saw are not measured against your gross income, and they are not measured against your benefit alone. They are measured against a special figure the rules call combined income. Some forms call it provisional income. It is the same thing.

How Combined Income Is Built	
Your adjusted gross income (AGI)	Start here
Plus any tax-exempt interest	Add it back
Plus one-half of your Social Security	Add half your benefit
Equals your combined income	Measured against the lines

That total is what gets stacked up against the frozen lines. And one more piece of precision matters. The tax is always a lesser-of calculation. That is why you say up to 50 percent and up to 85 percent, never a flat amount. For many people the share that actually ends up taxable is smaller than the cap.

FISCAL FOOTNOTE

Combined income, also called provisional income, equals your adjusted gross income, plus any tax-exempt interest, plus one-half of your Social Security benefits. The taxable portion of your benefit is then figured as the lesser of two formulas, which is why the correct phrase is always up to 50 percent or up to 85 percent. Work the actual worksheet for your situation. (Source: IRS Publication 915.)

The Kicker: The Lines Never Moved

Now here is the part that really gets me. Look at those numbers again. Twenty-five thousand. Thirty-two. Thirty-four. Forty-four.

Those lines were set in 1983 and 1993. And they have never moved. Not once. Not for inflation. Not for anything.

Think about what twenty-five thousand dollars meant in 1983. That was real money. Back then, this tax only hit higher-income folks. But everything else went up. Wages went up. The cost of living went up. Even Social Security itself gets a raise most years. Everything moved, except those lines.

Then and Now	The Story
1984	About 1 in 10 retirees owed tax on benefits
Today	A large and growing share of retirees
The lines	Still frozen at 1983 and 1993 levels

So every year, more and more regular retirees drift over a line that has not budged in forty years. When this started, about one in ten people owed any tax on their benefit. Today it is a big chunk of retirees, and it climbs every year.

This was not an accident. The lines were never indexed, and that was a deliberate design choice. That is exactly how the reach grows over time.

FISCAL FOOTNOTE

The thresholds set in 1983 and 1993 were never indexed for inflation, and that was by design. Because the lines stay fixed while incomes and benefits rise, more retirees cross them each year. This is often called bracket creep. In 1984 only about one in ten beneficiaries owed any tax on benefits, and the share has climbed steadily since. (Source: SSA Research Note #12 and Congressional Research Service.)

Is This Double Taxation? An Honest Answer

A lot of people think the same thing. David, this is double taxation. I already paid tax on that money.

And you know what? There is real truth in that. The half of FICA that came out of your check, you paid that with money that was already taxed. You are not wrong to feel that way.

But let me give you the part that rarely gets explained, because it actually matters.

When they set this up, they did not tax your whole benefit. They capped it. First at fifty percent. Then eighty-five. And those caps were not random.

Your benefit comes from three places.

The half you paid in. The half your employer paid in. And decades of growth on top of it. You already paid tax on your half. But your employer's half, and all that growth, were never taxed at all.

When the actuaries ran the numbers, they found your own contributions were worth less than fifteen percent of what you would collect over your life. So they said, fine, we will never tax more than eighty-five percent. That way, the part you already paid tax on stays protected.

So is it double taxation? On the part you already paid, it would be. And that is exactly why they drew the line where they did. Now you know more about this than most people who complain about it.

FISCAL FOOTNOTE

The two caps line up with a logic, not a coincidence. The 50 percent tier reflects that employees already paid income tax on their half of the FICA contribution. The 85 percent tier reflects analysis showing that a worker's own after-tax contributions are typically worth less than 15 percent of the lifetime benefits collected. Capping the taxable share at 85 percent leaves the already-taxed portion protected. (Source: SSA issue paper and federal budget analyses.)

Did the 2025 Law End the Tax? No.

Now the question everybody is asking me lately. David, didn't they just get rid of the tax on Social Security? I hear this every day. And I need you to hear me clearly.

No. They did not.

In 2025, a big tax law passed. You may have heard it called the One Big Beautiful Bill. And the headlines screamed, no tax on Social Security. But that is not what the law actually did.

Pull the IRS rules for this year. The tax on your benefits is still right there. Same fifty and eighty-five percent. Same frozen lines. Nothing about it was repealed.

What the 2025 law actually did.

It added a separate, temporary deduction for folks sixty-five and older. Six thousand dollars per person. It is real and it helps. But it is a deduction that lowers your taxable income for a few years, not the end of the tax on your benefit. It phases out at higher incomes, and it runs out after 2028.

The 2025 Senior Deduction	The Detail
Amount	$6,000 per person, age 65 and older
Phase-out begins	$75,000 single / $150,000 joint
Tax years it applies	2025 through 2028 only
Effect on benefit tax	A deduction, not a repeal

So if somebody told you that tax is gone, they were wrong. Plan like it is still here. Because it is.

FISCAL FOOTNOTE

The 2025 tax law (often called the One Big Beautiful Bill) did not repeal the taxation of Social Security benefits. The combined-income rules and the 50 percent and 85 percent tiers remain in force. What the law added was a separate, temporary deduction of $6,000 per person for taxpayers age 65 and older, phasing out above $75,000 single or $150,000 joint, and available for tax years 2025 through 2028. (Source: IRS newsroom guidance and IRS Publication 915, Nov 2025.)

Your State, and the One Lever You Control

A Quick Word on State Taxes

Everything above is about federal tax. States are their own story, and the news there is mostly good. The number of states that still tax Social Security benefits has been shrinking. It is down to roughly eight states in 2026, from about thirteen a few years ago. Whether your state is one of them, and how it treats benefits, depends on where you live and your income. Check your own state's current rule.

FISCAL FOOTNOTE

As of 2026, roughly eight states still tax Social Security benefits in some form, down from about thirteen in 2020. The specifics, including income exemptions and age rules, vary by state and change often. Confirm the current rule for your state of residence. (Source: 2026 state tax roundups.)

The One Lever You Control

So how much of your Social Security gets taxed comes down to one thing. Your combined income. Your other income, plus half your benefit, stacked up against those frozen lines.

And here is the good news. That number is one you actually have some control over.

The moves that change where you land.

Where you pull your retirement income from. Whether you do Roth conversions before this ever kicks in. How you time your withdrawals across the years. All of that moves where you land against the lines. And it is planning you do on purpose, years ahead, not in April when the bill shows up.

Your Social Security Tax Checklist

Print these pages. Check items off as you go.

Know Your Number

[ ] Estimate your combined income: AGI, plus tax-exempt interest, plus half your benefit

[ ] Compare it to the frozen lines ($25,000 / $32,000, then $34,000 / $44,000)

[ ] Remember the tax is up to 50 percent or up to 85 percent, never a flat amount

[ ] Pull last year's return and find the taxable portion of your benefit

Know the Current Rules

[ ] Confirm the tax was not repealed in 2025, only a temporary senior deduction was added

[ ] Check whether the $6,000 senior deduction applies to you for 2025 through 2028

[ ] Check whether your state still taxes Social Security benefits this year

Plan the Lever

[ ] Map which accounts your retirement income comes from, and the tax on each

[ ] Ask whether Roth conversions before benefits begin could lower future combined income

[ ] Build a withdrawal plan that watches the lines, not just this year's cash need

[ ] Schedule a review before year-end, not in April when the bill arrives

The Tax Is Still Here. Getting Surprised By It Is Optional.

Social Security benefits were tax-free for almost fifty years. Then two laws, two sets of lines that never moved, changed that for a growing share of retirees every year.

Once you understand combined income, the frozen lines, and the moves you can make, the decisions get clearer, and you have time to make the smart ones on purpose.

Context creates clarity. And clarity creates confidence.

If you want help mapping your own combined income, your Roth options, and how it all touches your taxes and your Medicare, the team at American Retirement Advisors is here to help.

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The income thresholds, combined-income formula, taxable percentages, the temporary senior deduction, and state tax treatment described here are set by federal and state law and are adjusted periodically. Always confirm the current-year figures and the rules that apply to your specific situation. Consult the IRS, the Social Security Administration, and your state's tax authority, or a qualified professional, for current details.

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