

## OBBBA's Senior Deduction

**Background:** The One Big Beautiful Bill Act (OBBBA) created a new deduction under the Tax Code called the *senior deduction*. The Act added IRC 151(d)(5) to the Tax Code. This deduction is up to \$6,000 for individuals age 65 or older. The deduction is part of the Tax Code through 2028, unless Congress decides to extend it. This *senior deduction* starts to phase out for an individual when his/her income reached \$75,000 (or \$150,000 if married and filing jointly.)

On the campaign trail President Trump promised to eliminate taxes on Social Security. However, due to the bizarre expedited 'reconciliation rules' the Senate follows, Social Security could not be altered under that process. As a result, rather than pass legislation to eliminate income taxes on Social Security, instead a \$6,000 *senior deduction* was cobbled together to take the place of the elimination of tax on Social Security benefits.

**Observations:** A couple of observations concerning this new *senior deduction*.

- **Roth Conversions:** The *senior deduction* might be illusory for those individuals over age 65 who are in the process of converting their traditional IRAs to Roth IRAs. The more income that they report resulting from their Roth IRA conversion, the more likely it is that they will hit the income phase out range and thus be unable to claim the *senior deduction*.
- **Social Security/Medicare Insolvency:** Perhaps more disconcerting is the loss of tax revenues when an individual's Social Security benefits are not taxed. The oblivious impact of an individual claiming the *senior deduction* is that his/her income tax bill will be less, which is the whole point of creating the *senior deduction*. While that sounds like a genuine benefit for seniors, remember that the tax revenues generated on Social Security benefits are then dedicated and used to fund both the Social Security Trust fund and the Medicare Trust fund. Those two benefit trust funds were, prior to the *senior deduction*, estimated to become insolvent leading to reduced Social Security benefits in 2034. Now, with the loss in expected tax revenues attributed to the use of the new *senior*

*deduction*, it is now projected that the insolvency of those trust funds will occur one year *earlier* than originally estimated, e.g. 2033, or maybe even late 2032.

**Conclusion:** It seems that there is a lot of 'smoke and mirrors' when it comes to OBBBA. It admittedly creates a lot of new tax deductions but it then phases out those deductions as incomes increase. With expected inflation resulting from tariffs, leading to higher interest rates, incomes can be expected to rise with inflation. Recall, too, that this Congress has begun to force 'Rothification' of retirement accounts, which means more taxable income as Roth contributions or Roth conversions are made. In short, Congress is now forcing individuals (and particularly older individuals with discretionary income who are aggressively saving for their retirement years) to 'go Roth' causing more current taxable income, while it creates potentially illusory *senior deductions* that are quickly phased out due to higher adjusted gross incomes. It is a bit circular, giving seniors the impression that they have received a tax break, yet at the same time jeopardizing the Social Security and Medicare benefits in the not-to-distant future.

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