The New $6,000 Senior Tax Deduction

Quick-Take: A recent letter from the Social Security Administration mischaracterized a new provision in the Tax Act claiming that it eliminated income taxes on Social Security. That is not the case, but the letter is creating a lot of confusion among seniors these days.

Background: The new Tax Act provides an enhanced $6,000 income tax deduction for middle and low-income individuals who are aged 65 and older. However, contrary to some publications, even one from the Social Security Administration itself last week, the Tax Act does **not eliminate income taxes** on Social Security benefits for most beneficiaries. Some of the key features of this new income tax deduction for seniors are summarized below.

Duration: This **bonus** income tax deduction is only available for years **2025 through 2028,** so slow down before you join the celebratory parade.

Maximum Deduction: This new **$6,000** tax deduction is only available to seniors who are age **65** and over. If an individual is age 59, he/she will never enjoy this bonus deduction.

Income Phaseouts: Income limits apply to this senior deduction. The income phaseout starts at $75,000 for a single individual and $150,000 for married couples who file jointly. The phaseout range goes from $75,000 and ends at $175,000 for a single individual and ends at $250,000 for a married couple.

Deduction Mischaracterization: Some seniors who are over age 65 with low incomes may not even be currently collecting Social Security, yet they can still benefit from the new deduction. Consequently, it is inaccurate for the Social Security Administration to say in its letter to Social Security recipients that the new Tax Act 'eliminated taxes on their Social Security benefits.' While the deduction may be a direct offset to Social Security taxes, this deduction could also be viewed as an offset to higher state and local taxes- or any other tax burden an individual owes.

Impact on the Social Security Trust Fund: Current estimates are that the cutting tax revenues on paid Social Security benefits will accelerate Social Security and Medicare insolvency from 2033 to 2032, which means their projected insolvency is less than one calendar year- but we are talking about **accelerating insolvency** of those trust funds. Taxes on these governmental benefits represent about 4% to 5% of the total revenue going into the Social Security and Medicare trust funds each year. Social Security income is different for all other taxes paid. It does not go into the general fund. Rather, it goes back into the Social Security trust funds, which are rapidly running out of money. No, the new Tax Act does nothing to address the shrinking balance of the Social Security Trust Fund.

Conclusion: While cutting taxes for seniors is a good thing, it is not the same thing as eliminating taxes on Social Security, as claimed in the Social Security Administration's recent letter to millions of recipients. Sadly, the SSA appears to have conflated two issues [a tax deduction and impact on Social Security] for political purposes (surprise, surprise) which in turn creates unrealistic expectations for many seniors who live on fixed incomes and rely on the government benefits for their existence.

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