Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

BUDGET SPOTLIGHT

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AUGUST | 2026

The Taxation of Social Security Benefits

Social Security—the largest single program in the federal budget—has two components. Old-Age and Survivors Insurance (OASI) provides benefits to retired workers, their eligible dependents, and some survivors of deceased workers. Disability Insurance (DI) provides benefits to disabled workers and their dependents.

Unlike most sources of income, which are either fully subject to tax or not subject to tax at all, Social Security benefits are subject to tax on a sliding scale, meaning that the portion of benefits potentially subject to the individual income tax increases as a beneficiary's income rises. In 2026, income taxes on Social Security benefits will total $120 billion, an amount equal to 7.1 percent of total Social Security benefits received in that year, the Congressional Budget Office estimates.

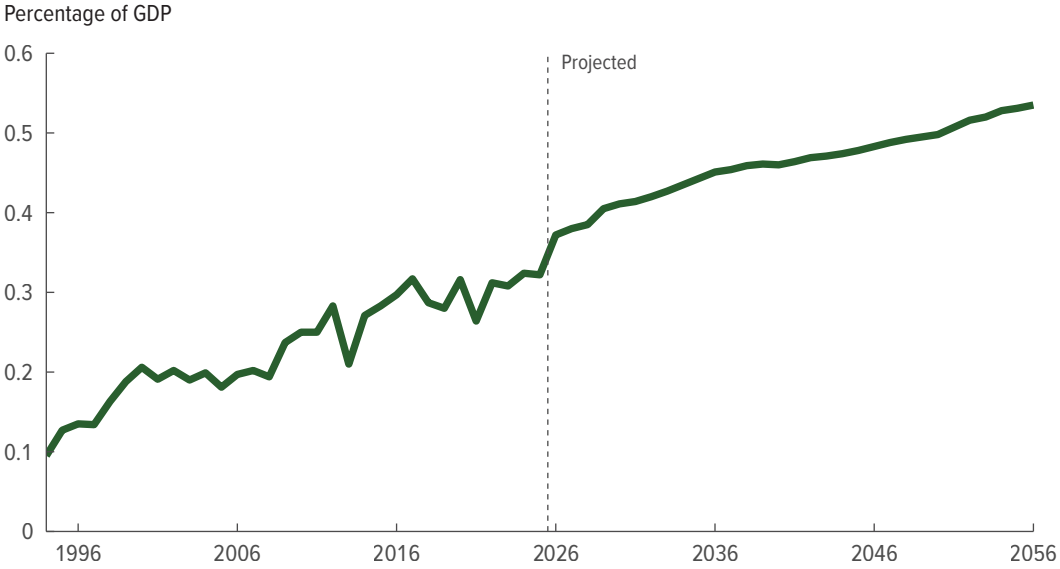
Revenues from the taxation of Social Security benefits are credited to three trust funds. More than half of those revenues accrue to Social Security's OASI and DI trust funds (mostly to the former). The remaining revenues are credited to Medicare's Hospital Insurance (HI) trust fund, which covers inpatient hospital services, care provided in skilled nursing facilities, home health care, and hospice care. Those revenues improve the solvency of the trust funds, but they reduce the net income of beneficiaries and complicate the tax system.

This report describes the rules governing the taxation of Social Security benefits and examines how those rules affect federal revenues and the distribution of taxes among beneficiaries. It also briefly summarizes the broader economic effects of taxing Social Security benefits.

Notes: Unless this report indicates otherwise, all years referred to are calendar years. Numbers may not add up to totals because of rounding. This brief is one of a series of reports examining trends in specific areas of federal expenditures and revenues and describing how CBO accounts for those trends when preparing its baseline and cost estimates.

Figure 1.

Individual Income Tax on Social Security Benefits



Taxes on Social Security benefits have risen as a share of GDP over the past few decades. In CBO's baseline projections, benefits as a share of GDP continue to grow, reflecting the way in which Social Security benefits are taxed under the individual income tax system and projected growth in benefits in relation to the size of the economy.

Data sources: Congressional Budget Office; Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds; Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. See www.cbo.gov/publication/62553#data.

How Much Tax Is Paid on Social Security Benefits and Where Does It Go?

Of the $120 billion in income taxes estimated to be paid on Social Security benefits in 2026, $66 billion is projected to be credited to Social Security's OASI trust fund, $2 billion to Social Security's DI trust fund, and $53 billion to Medicare's HI trust fund.

Taxes on Social Security benefits have risen as a share of gross domestic product (GDP) over the past few decades, growing from 0.1 percent of GDP in 1994 to 0.4 percent of GDP in 2026 (see Figure 1). In CBO's baseline projections (which are estimates of what federal revenues, outlays, deficits, and debt would be if current laws generally remained unchanged), taxes on benefits as a share of GDP continue to grow, reaching 0.5 percent in 2056. (Total individual income tax revenues in fiscal year 2056 are projected to be 10.1 percent of GDP.)

About two-thirds of that projected growth reflects the way in which Social Security benefits are taxed under the individual income tax system, which tends to make a larger share of benefits subject to taxation over time. The remaining one-third reflects the projected growth in Social Security benefits in relation to the size of the economy.

How Are Taxes on Social Security Benefits Determined?

The amount of tax paid on Social Security benefits depends on the amount of benefits included in beneficiaries' total income.[1] (As discussed in the next section, some or all of those benefits may not be taxable.) It also depends on other features of the tax code, notably the standard deduction and the tax rate schedule. To calculate their taxable income when filing their tax returns, Social Security beneficiaries add the taxable amount of benefits to their other income and then subtract adjustments to income and certain deductions, such as the standard deduction or itemized deductions. To determine the amount of tax they owe, beneficiaries then apply the appropriate tax rate schedule to their taxable income and subtract any applicable credits.

The Treasury Department's Office of Tax Analysis estimates the amount of income tax that will be owed on Social Security benefits each year, and it credits that estimated amount to the OASI, DI, and HI trust funds throughout that year. After the Internal Revenue Service processes beneficiaries' tax returns, the Office of Tax

1. Total income is the broadest measure of income on an individual income tax return; it includes income from all sources not specifically excluded by the tax code.

Analysis uses those returns to determine how much of the total tax paid by beneficiaries was from the inclusion of the taxable amount of Social Security benefits and the proportion that should be credited to each trust fund. Adjustments are then made to the trust funds to account for differences between estimated and actual amounts.

What Portion of Social Security Benefits Is Included in Total Income for Tax Purposes?

The share of Social Security benefits that is included in total income and thus potentially subject to the individual income tax is determined by a three-tiered tax structure. The thresholds for those tiers were last changed in 1994. The amount of tax owed by beneficiaries is determined using a modified version of their adjusted gross income (AGI) that starts with the standard measure of AGI and adds one-half of beneficiaries' Social Security benefits and some other nontaxable income (including tax-exempt interest income).[2]

The three tiers are as follows:

- **No benefits included in total income.** Social Security beneficiaries with a modified AGI equal to or below a first set of thresholds—$25,000 for unmarried taxpayers and $32,000 for married couples filing jointly—do not include any Social Security benefits in their income. In 2026, those beneficiaries will account for 33 percent of all Social Security beneficiaries, CBO estimates.
- **Up to 50 percent of benefits included in total income.** Social Security beneficiaries with a modified AGI above the previous thresholds but no higher than a second set of thresholds—$34,000 for unmarried taxpayers and $44,000 for married couples filing jointly—include in their income the lesser of two amounts: 50 percent of their benefits, or 50 percent of their modified AGI between the first and second thresholds (that is, above $25,000 but below $34,000 for unmarried taxpayers, for example). In 2026, 8 percent of Social Security beneficiaries will be in this tier, CBO estimates. For most of those people, however, deductions and credits reduce their income taxes to zero, so only 10 percent of that group will pay tax on their benefits.
- **Up to 85 percent of benefits included in total income.** Social Security beneficiaries with a modified AGI above the second set of thresholds—$34,000 for unmarried taxpayers and $44,000 for married couples filing jointly—include in their income the lesser of two amounts: 85 percent of their benefits, or 85 percent of their modified AGI above the second threshold plus 50 percent of their modified AGI between the first and second thresholds. CBO projects that 58 percent of beneficiaries will be in this tier in 2026, and 89 percent of that group will pay tax on their benefits.

Under the three-tiered structure, the share of benefits included in total income varies with taxpayers' Social Security benefits and their other income. For example, unmarried taxpayers with $15,000 in annual Social Security benefits would not include those benefits in their income until the sum of half of their benefits ($7,500) and their other income was above $25,000 (see Figure 2). In other words, those taxpayers would start including a portion of their Social Security benefits in their income when their other income reached $17,500. Once they had between $17,500 and $26,500 in other income (that is, a modified AGI between $25,000 and $34,000), they could include up to half of their Social Security benefits in their income, depending on the amount of other income. And once their other income exceeded $26,500, those taxpayers could include up to 85 percent of their Social Security benefits in their income, depending on the amount of other income (see Figure 3). By contrast, unmarried taxpayers with $30,000 in benefits would reach a modified AGI of $25,000 at a lower amount of other income, $10,000. Once their other income exceeded $19,000 (in other words, they had a modified AGI of $34,000), they could include up to 85 percent of those benefits in their income, depending on the amount of other income.

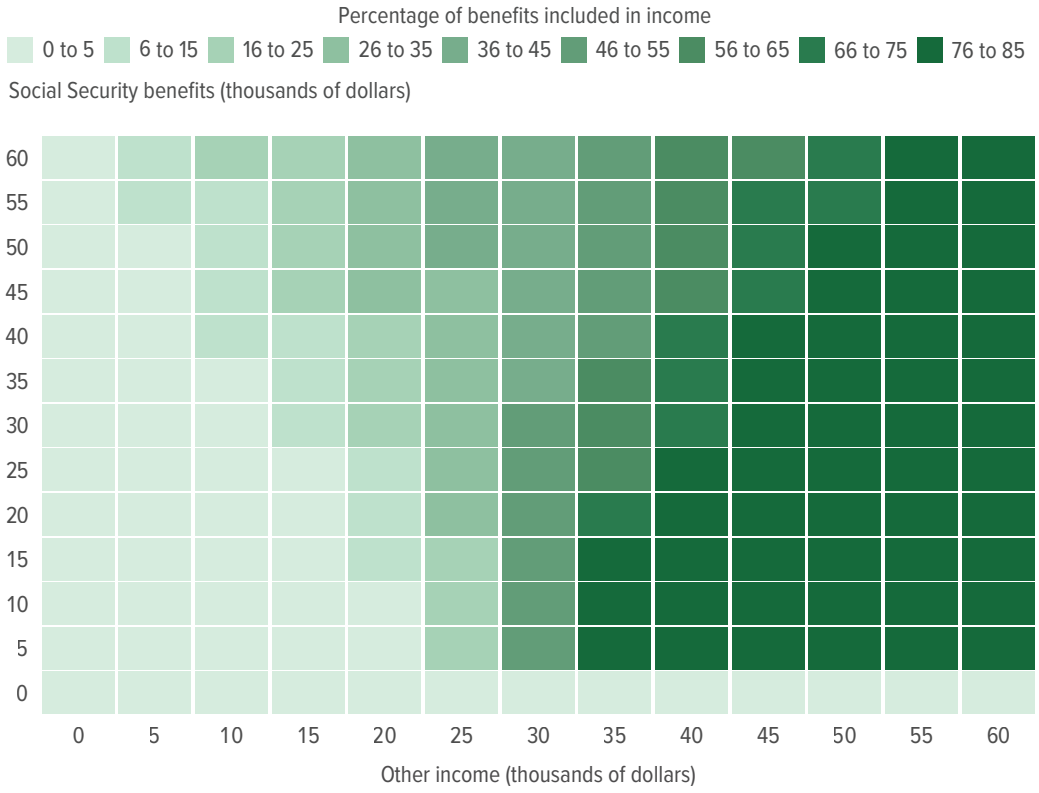
How Do Taxes on Social Security Benefits Affect Marginal Tax Rates?

For taxpayers with income in the ranges over which a larger percentage of their Social Security benefits become subject to tax, marginal tax rates (that is, the additional amount paid in taxes for each additional dollar of income) on income other than Social Security benefits

2. Adjusted gross income consists of total income minus certain deductions called statutory adjustments. Those adjustments to income include a portion of the self-employment tax, certain contributions to retirement accounts, and interest paid on student loans. For more details about calculating the share of Social Security benefits included in income, see Paul S. Davies, *Social Security: Taxation of Benefits*, Report RL 32552, version 45 (Congressional Research Service, June 2020), www.congress.gov/crs-product/RL32552.

Figure 2.

Share of Benefits Included in Taxable Income for Unmarried Taxpayers, by Annual Social Security Benefits and Other Income



The share of Social Security benefits included in income increases with both Social Security benefits and other income, reaching a maximum of 85 percent of benefits included in income.

Data source: Congressional Budget Office. See www.cbo.gov/publication/62553#data.

are higher because of the way Social Security benefits are taxed. As other income rises, beneficiaries must include more of their Social Security benefits in their total income, leading to effective tax rates (the ratio of taxes paid to a given tax base) on that additional income that can be higher than the statutory rates.[3]

For example, if unmarried taxpayers with $15,000 in annual Social Security benefits were in a tax bracket with a 12 percent marginal rate, they would owe at least 12 cents in tax for every additional dollar of other income. If their modified AGI was between $25,000 and $34,000 (the tier for including up to 50 percent of benefits in total income), that dollar of additional income would be taxed at a rate of 12 percent, but it could also add up to 50 cents of their Social Security benefits to their taxable income. Their additional tax on a dollar of other income thus would be 12 cents plus up to 6 cents—the 12 percent rate applied to up to 50 cents of the Social Security benefit now included in taxable income. As a result, their effective tax rate on a dollar of other income in that tier could be up to 18 percent, higher than the marginal rate for their tax bracket. Those higher rates can affect beneficiaries' decisions about how much to work, when to claim benefits, and how to structure withdrawals from retirement savings accounts.

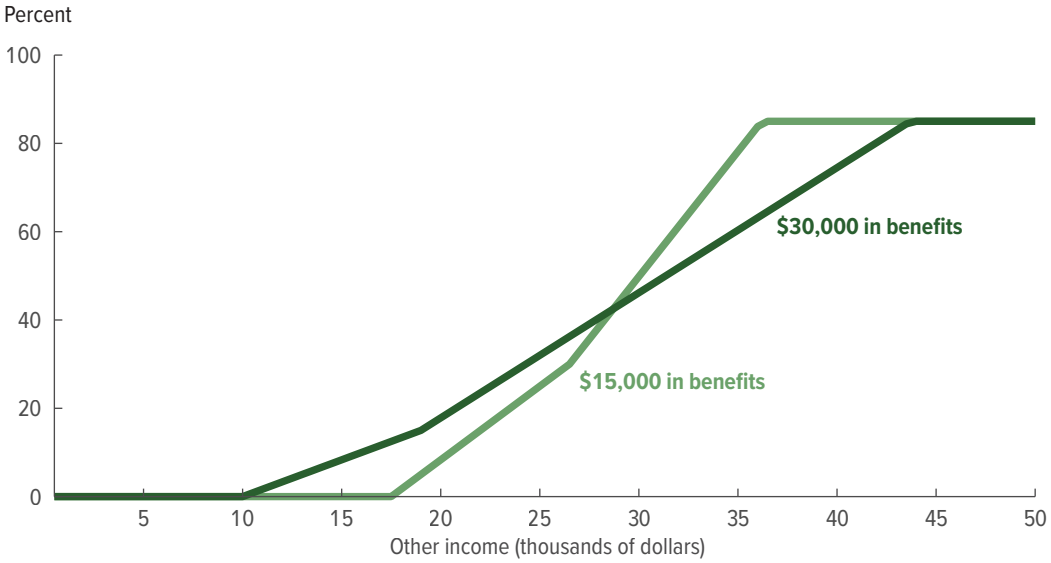
How Does Revenue From the Taxation of Social Security Benefits Grow Over Time in CBO's Projections?

The share of Social Security benefits subject to the individual income tax has grown since 1984, when benefits first became taxable. Initially, no more than 50 percent

3. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes paid to adjusted gross income. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes paid to income different from the statutory tax rates.

Figure 3.

Percentage of Benefits Included in Income Under the Individual Income Tax for Hypothetical Unmarried Taxpayers With $15,000 or $30,000 in Annual Social Security Benefits



Unmarried taxpayers with $15,000 in annual Social Security benefits would include up to half of those benefits in income when their other income was between $17,500 and $26,500 and up to 85 percent of those benefits in income once their other income exceeded $26,500. For unmarried taxpayers with $30,000 in benefits, the ranges differ.

Data source: Congressional Budget Office. See www.cbo.gov/publication/62553#data.

of benefits were included in total income and thus potentially subject to the individual income tax, but that limit was raised in 1994 to the current 85 percent. The share of benefits subject to tax has also grown because the modified AGI thresholds for including benefits in income are fixed in nominal terms (in other words, not adjusted for inflation), whereas the components of modified AGI typically grow with the economy. In CBO's projections, income taxes paid on Social Security benefits are projected to rise from 7.1 percent of those benefits in 2026 to 9.0 percent by 2056 (see Figure 4).

Because the modified AGI thresholds for including benefits in total income are fixed in nominal terms, inflation affects the taxation of benefits. Social Security benefits are adjusted for inflation through a yearly cost-of-living adjustment (COLA), and inflation generally causes other income also to increase (again, when measured in nominal terms). Periods of high inflation, like the rise in prices that occurred in 2021 and 2022 after the COVID-19 pandemic, cause the number of people with taxable Social Security benefits, and the total amount of those taxable benefits, to rise. The full effect occurs with a lag because the inflation adjustment to benefits is made in January based on inflation in the previous year. (The COLA for the 2021 rise in prices affected benefit payments in 2022, for example.) From 2021 to 2024, the number of tax returns with Social Security benefits included in total income grew by 14 percent, and the taxable amount of benefits grew by 44 percent. From 2016 to 2019, when inflation was lower, the number of tax returns with Social Security benefits included in total income grew by 12 percent, and the taxable amount of benefits grew by 26 percent.

The amount of revenue raised by the taxation of Social Security benefits can be altered by seemingly unrelated changes in tax law. For example, if a deduction that reduces taxable income expires, the resulting increase in taxable income can shift tax filers into a higher bracket, potentially increasing the tax rate on their benefits. One provision that is now in effect but that is set to expire at the end of 2028 is the enhanced deduction for people age 65 or older. That provision, which is part of the 2025 reconciliation act (Public Law 119-21), allows a deduction of $6,000 from AGI for each filer who is at least 65 years old (subject to a phaseout for higher-income filers). The provision is projected to reduce revenues from the taxation of Social Security benefits over the 2025–2028 period.

Figure 4.

Individual Income Tax on Social Security Benefits as a Percentage of Total Benefits

The share of benefits subject to tax has grown because of legislative changes and because the thresholds (calculated using taxpayers' adjusted gross income) for including benefits in income are fixed in nominal terms. Under current law, income taxes paid on Social Security benefits reach 9 percent of those benefits by 2056.

Data sources: Congressional Budget Office; Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds; Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. See www.cbo.gov/publication/62553#data.

How Do Taxes on Social Security Benefits Differ Among Taxpayers With Differing Incomes?

Slightly more than half of beneficiaries will owe taxes on their Social Security benefits in 2026, CBO estimates. The likelihood of owing that tax rises with income: Roughly 5 percent of Social Security beneficiaries with income under $50,000 will owe tax on their benefits in 2026, whereas 99 percent of those with income over $100,000 will owe tax on their benefits (see Figure 5, top panel).

The share of Social Security benefits paid in taxes is larger for higher-income taxpayers than for lower-income taxpayers. That is because a greater share of benefits is taxable for higher-income taxpayers and because taxpayers with higher income face higher statutory tax rates. Even though taxes on Social Security benefits are projected to average 7.1 percent of total benefits in 2026, some beneficiaries can owe much more than that. For example, beneficiaries who have a modified AGI above the second threshold and who are in the highest income tax bracket can owe income taxes on their benefits equal to 31 percent of total benefits. (That amount is calculated by multiplying the 85 percent of benefits included in income by the top income tax rate of 37 percent.) On average, Social Security beneficiaries with income under $50,000 will owe less than 1 percent of their benefits in income taxes in 2026, CBO projects, and those with income over $100,000 will owe more than 10 percent (see Figure 5, bottom panel).

How Do the Amounts Credited to the Trust Funds Grow Over Time in CBO's Projections?

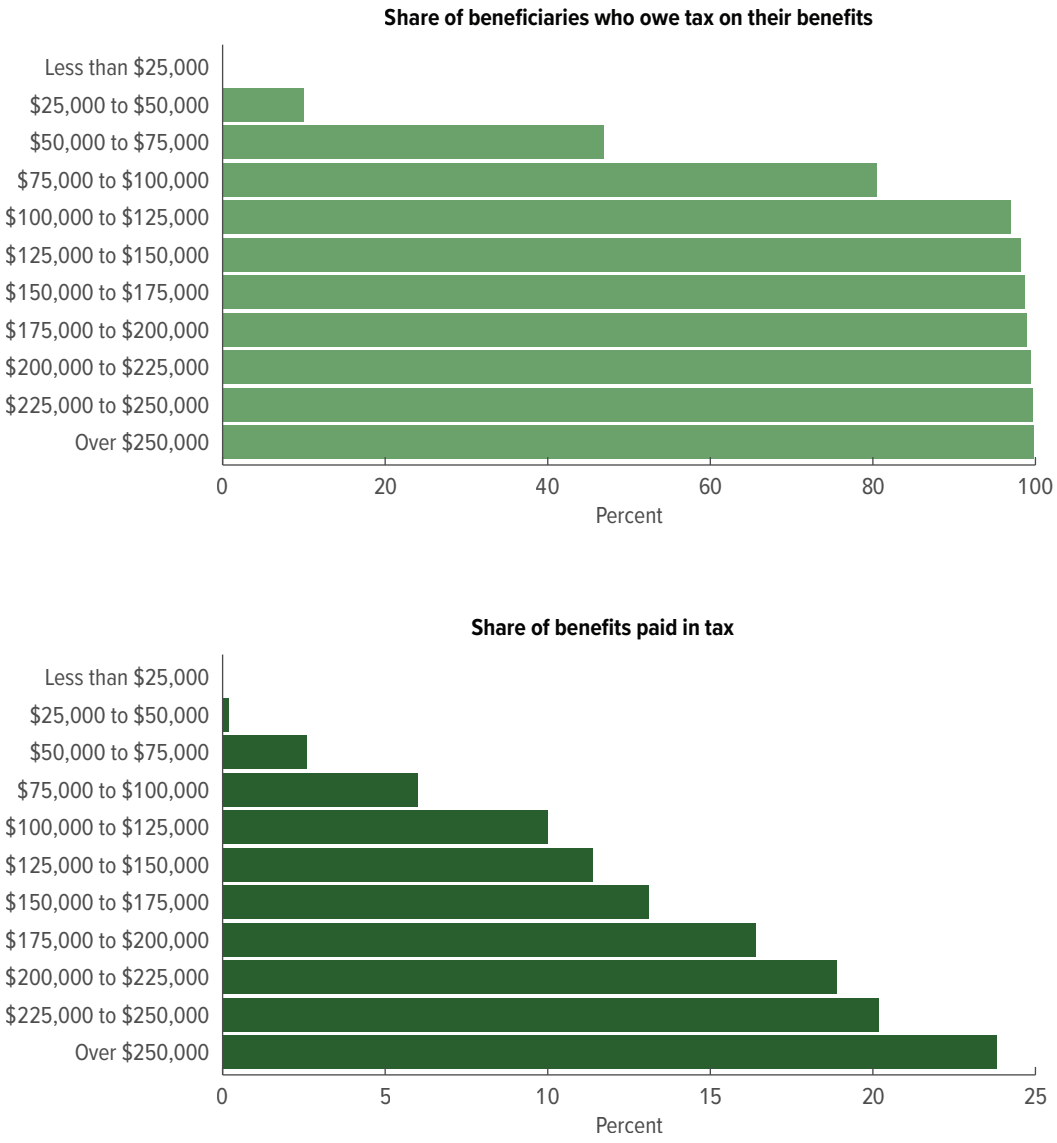
From 2026 to 2036, revenues from the taxation of Social Security benefits are projected to increase from $120 billion to $212 billion. Taxes on benefits will total almost $1.8 trillion over that period, $1.0 trillion of which is projected to be credited to the Social Security trust funds. (Nearly all of that amount will be credited to the OASI trust fund; only 2 percent will be credited to the DI trust fund.) The remaining $0.8 trillion will be credited to the HI trust fund.

The way in which revenues are allocated among the trust funds depends on the extent to which Social Security benefits are included in total income for tax purposes. The revenue generated from including in income the first 50 percent of benefits is credited separately to the OASI and DI trust funds depending on whether OASI or DI is the source of the taxed benefits. Additional revenue that comes from the inclusion of up to 85 percent of benefits in income is credited solely to the HI trust fund. Over time, the share of revenue credited to the HI trust fund

Figure 5.

Distribution of Tax on Social Security Benefits, by Beneficiaries' Income, 2026

Percent



The likelihood of owing tax on Social Security benefits rises with income, and the share of Social Security benefits paid in taxes is larger for higher-income taxpayers than for lower-income taxpayers.

Data source: Congressional Budget Office. See www.cbo.gov/publication/62553#data.

The measure of income used to group beneficiaries here is total income (income from all sources not specifically excluded by the tax code), with the full amount of Social Security benefits included, plus tax-exempt interest.

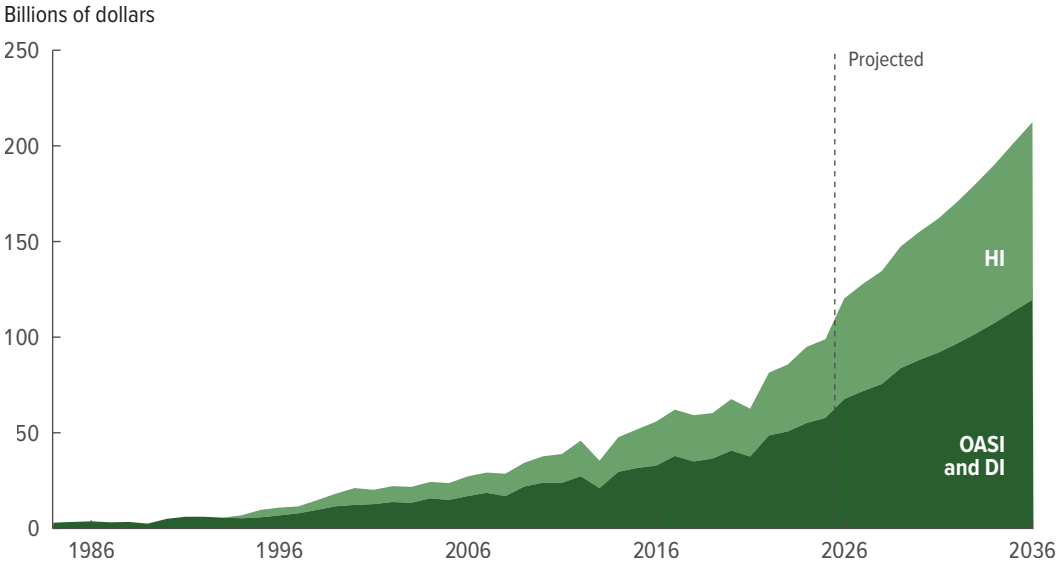
has increased as a growing fraction of beneficiaries have had a modified AGI above the second threshold and therefore have included more than 50 percent of their benefits in income (see Figure 6). CBO projects that the upward trend in the share of revenue credited to the HI trust fund will continue, following a temporary decline associated with the expiration at the end of 2028 of the enhanced deduction for people age 65 or older.

How Does the Taxation of Benefits Affect the Projected Exhaustion Date of the OASI, DI, and HI Trust Funds?

The year in which a trust fund's balance is projected to be exhausted is one measure of the fund's financial position. In CBO's estimation, the balance of the OASI trust fund will be exhausted in fiscal year 2032, and the balance of the HI trust fund will be exhausted in fiscal

Figure 6.

Income Allocated to the OASI, DI, and HI Trust Funds From the Taxation of Social Security Benefits



Revenues from the taxation of Social Security benefits are projected to reach $212 billion in 2036. Historically, most of those revenues have been credited to Social Security's trust funds, but the share credited to Medicare's HI trust fund has increased as beneficiaries' income has grown.

Data sources: Congressional Budget Office; Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds; Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. See www.cbo.gov/publication/62553#data.

DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance.

year 2040. By contrast, the DI trust fund is projected to remain solvent for at least the next 30 years.

Even though revenues from the taxation of Social Security benefits are a small share of those trust funds' total annual income—about 5 percent for OASI, 1 percent for DI, and 9 percent for HI in 2025—those revenues can extend the funds' exhaustion dates by years.[4] Without the revenues from the taxation of Social Security benefits from fiscal year 2026 onward, the balances of the OASI and HI trust funds would be exhausted in fiscal year 2031. For the OASI trust fund, that is around one year earlier than the current projection; for the HI trust fund, that is around nine years earlier than the current projection.

Legislative changes that affect the amount of revenue projected to be generated from the taxation of Social Security benefits also affect projected exhaustion dates. For example, provisions of the 2025 reconciliation act lowered tax rates and created the enhanced deduction for taxpayers age 65 or older. As a result of those provisions, revenues from taxing Social Security benefits are lower, and the trust fund exhaustion dates are earlier, in CBO's current projections than they were in the agency's projections from March 2025.[5]

How Does the Taxation of Benefits Affect the Broader Economy?

The taxation of Social Security benefits can affect people's decisions about how much to work, how much to save, and when to claim benefits. Those decisions can have broader economic effects, which in turn affect the federal budget. For example, taxing benefits reduces the resources available to people in retirement; if they expect to receive lower net benefits, some people will react by working more and saving more. That effect boosts overall economic output by increasing the supply of labor and private saving in the years before people retire. The opposite effects can occur as well. Some beneficiaries have higher tax liability and income in the range over which a larger share of their benefits becomes taxable. For those people, the resulting

4. Most of the annual income for the Social Security trust funds and the HI trust fund comes from payroll tax revenues.

5. For more details about changes to the HI projection since March 2025, see Phillip L. Swagel, "CBO's Updated Projections of the Hospital Insurance Trust Fund's Finances" (blog entry, February 23, 2026), www.cbo.gov/publication/62165.

higher marginal tax rates reduce their net wages, which discourages them from working after claiming benefits. That effect reduces the supply of labor.

Additionally, the taxation of benefits potentially raises marginal tax rates on other forms of income and deductions. As a result, it can affect a broad range of economic and financial decisions, such as choices about using tax-preferred retirement accounts, realizing capital gains income, or making deductible contributions to charity. For example, some people choose to realize taxable income before they claim Social Security to reduce the taxation of their benefits. One way to do that is by converting traditional individual retirement accounts (IRAs) to Roth IRAs.[6]

How Does the Taxation of Benefits Contribute to the Complexity of the Tax System?

The structure of the tax on Social Security benefits adds complexity to the tax system, for several reasons. First, the share of benefits included in total income depends on a separate calculation of income. Second, the share of benefits included in total income changes as different income thresholds are reached. Third, the relationship between the taxation of benefits and many other financial factors—changes in earnings, retirement account withdrawals, investment income, or income generated from other sources—is not straightforward. Beneficiaries might understand generally that their benefits are potentially taxable, but understanding precisely how those various factors affect their total income taxes can be challenging.

6. Traditional IRAs allow deductible or before-tax contributions, and taxes are paid when funds are withdrawn. Contributions to Roth IRAs are made using after-tax money (meaning the account has been funded with money that has already been subject to income taxes), so qualified withdrawals are exempt from income tax. Amounts converted from a traditional IRA to a Roth IRA are included in income in the year of the conversion, but future qualified withdrawals are not included in the calculation of modified AGI that is used to determine the share of Social Security benefits included in income. Converting a traditional IRA to a Roth IRA before claiming Social Security benefits can thus reduce the percentage of benefits that is potentially taxable.

This report was prepared to enhance the transparency of the work of the Congressional Budget Office. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Kathleen Burke and Kurt Seibert wrote the report with guidance from John McClelland, Molly Saunders-Scott, Edward Harris, and Joshua Shakin. Alia Abdelkader, Noah Meyerson, and Julia Sheriff contributed to the analysis. Xinzhe Cheng, Molly Dahl, and Robert Sunshine (a consultant to CBO) provided comments. Tyler Van Patten fact-checked the report.

Jeffrey Kling reviewed the report, Christine Bogusz edited it, and R. L. Rebach created the graphics and prepared the text for publication. The report is available at www.cbo.gov/publication/62553.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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