



## THE OBBBA'S NEW SOCIAL SECURITY DEDUCTION: What It Really Means for Retirees

Resource: [Hartfordfunds.com](https://www.hartfordfunds.com)

### Breaking Down the Impact on Your Retirement Income and Planning

You may have seen headlines celebrating a major shift in retirement savings: Social Security benefits are no longer taxed, thanks to the One Big Beautiful Bill Act (OBBBA). While this sounds like a sweeping win for retirees, the fine print tells a more complicated story. The OBBBA does introduce significant changes, but not all of them are as straightforward—or beneficial—as they might seem. Understanding what's changing, and what remains the same, can help retirees avoid costly assumptions and make more informed financial decisions.

#### **How Does the OBBBA Affect Social Security Benefits?**

The bill doesn't repeal the tax on Social Security benefits outright. Instead, it introduces a new deduction that reduces the taxable income of many seniors, lowering or eliminating what they owe on their benefits. As a re-

sult, about 88% of retirees are expected to pay no tax on their Social Security benefits, not because the tax is eliminated, but due to a combination of deductions. Currently, 64% of seniors aged 65 and older already qualify for exemptions or deductions that prevent their benefits from being taxed. The bill expands the existing exemptions, increasing the number of retirees who won't face taxes on their benefits from 64% to 88%.<sup>1</sup>

It's important to note that this deduction, introduced through the OBBBA, is a federal initiative. While Social Security benefits are subject to federal tax rules, some states also impose their own taxes on Social Security income—often with very different guidelines.

Combined income is calculated as your adjusted gross income (AGI) plus nontaxable interest and half of your Social Security benefits. AGI is your total income minus certain deductions, and the IRS uses this combined figure to determine how much of your benefits may be taxed.

Filing Status	Combined Income	% of SS Taxed
Single	<\$25,000	0%
Single	\$25,000-\$34,000	Up to 50%
Single	>\$34,000	Up to 85%
Married Joint	<\$32,000	0%
Married Joint	\$32,000-\$44,000	Up to 50%
Married Joint	>\$44,000	Up to 85%

## **How Are Social Security Benefits Taxed?**

To understand who still pays taxes on Social Security, it helps to look at how the system currently works. The table below shows how much of your Social Security benefits may be taxable, depending on your filing status and combined income. Here's a quick look at the current thresholds:

Filing Status	Income Limit for Full Deduction*	Deduction Amount	Phase-Out Range
Single (65+)	Up to \$75,000	\$6,000	\$75,000-\$175,000
Married (65+)	Up to \$150,000	\$12,000	\$150,000-\$250,000

*\*Income limit is based on Modified Adjusted Gross Income (MAGI).*

## **Now, Here's Where the OBBBA Makes a Difference**

Starting in 2025, retirees ages 65 and older will be eligible for a new deduction in addition to the standard and age-based deductions. This deduction is income-based and gradually phases out as income increases. For example, singles earning up to \$75,000 can deduct \$6,000, while married couples earning up to \$150,000 can deduct \$12,000. The deduction phases out completely at higher income levels.

## **Let's Look at Two Examples to See How This May Play out:**

### **#1 - Jerry, a Single Retiree, Age 70:**

**AGI:** \$80,000

Under the OBBBA, Jerry is eligible for a deduction of up to \$6,000. However, because his income exceeds the \$75,000 threshold, the amount he can deduct will be reduced accordingly.

Now, we have to do the phase-out calculation at a rate of 6 cents for every dollar over the limit.

**For Jerry that means:**

$$\$6,000 - (\$5,000 \times 6\%) = \$5,700 \text{ deduction.}$$

**Assuming Jerry is at a 22% tax bracket:**

$$\$5,700 \times 0.22 = \$1,254 \text{ in tax savings.}$$

### **#1 - Carol and Tim, Married, Ages 68 and 70:**

**Combined AGI:** \$160,000

Under the OBBBA, Carol and Tim are eligible for a deduction of up to \$12,000. However, because their income exceeds the \$150,000 threshold, the amount they can deduct will be reduced.

How much over the limit?

**Phase-out calculation:**

$$\$12,000 - (\$10,000 \times 6\%) = \$11,400 \text{ deduction}$$

**Assuming Carol and Tim are at a 22% tax bracket:**

$$\$11,400 \times 0.22 = \$2,508 \text{ in tax savings.}$$

## **So, Will I Get These Deductions Forever?**

Not quite. It's important to note that this deduction isn't permanent; it's currently set to expire after 2028 unless Congress decides to extend it. The phase-out is designed to balance immediate financial relief for retirees while ensuring the sustainability of Social Security benefits. By setting an expiration date, Congress can reassess the economic impact and effectiveness of the deduction, making adjustments as necessary. For now, this means retirees have a limited window to take advantage of this benefit, and it's crucial to stay informed about any legislative changes that may affect their financial planning.

## **Do I Get This Deduction Automatically?**

No. This deduction is not automatically applied to your Social Security payments or W-2s. You—or your tax preparer—must actively claim it when filing your 2025 tax return. It's your responsibility to calculate and include the deduction based on your income and eligibility.

## **Next Steps**

The OBBBA deduction can be a valuable tax break for retirees, especially those in the upper-middle income range. However, the rules are complex, and eligibility phases out at higher income levels, making timing and income management critical. Strategic decisions, such as timing withdrawals, converting to a Roth IRA, or selling investments, can help you stay within the qualifying range and maximize your savings. Because this deduction is temporary and nuanced, it's essential to coordinate with both your financial and tax professionals. With thoughtful planning, you can take full advantage of this opportunity and potentially reduce your tax burden in retirement.