Year

With next year’s benefits going up at their steepest levels in 42 years, more people will be taxed.

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By David Lightman, The Sacramento Bee (TNS)

It seems like such good news—Social Security benefits are going up 8.7% next year, thanks to inflation. But for a lot of people, their tax bill could go up, too.

That’s because tax rates on Social Security benefits are not changing with inflation.

Taxing Social Security benefits began in 1984 as part of a sweeping reform of the

very negative surprise."

The average retired worker's monthly benefit will go in January from $1,681, to $1,827. An older couple who both get benefits would see their monthly amounts go from $2,734 to $2,972.

About 6 million Californians receive benefits with no state tax.

Federal benefits taxation is based on a complex formula involving what's called "combined income." If that income is between $25,000 and $34,000 for an individual, they could pay tax on up to 50% of their benefits. If the income is higher, up to 85% of their benefits can be taxable.

Those filing a joint return could pay tax on up to 50% of benefits if their combined income is between $32,000 and $44,000. If the income tops $44,000, the benefits can be taxed at up to an 85% rate.

"Lower income beneficiaries may find themselves owing federal taxes due to the increase in Social Security benefits," since their total "combined income" may have increased, said Jodie Rolih, a CPA and senior tax manager at Sensiba San Filippo in Pleasanton, California.

The Congressional Budget Office estimated that nearly half of Social Security beneficiaries, or more than 25 million people, were affected by the income taxation of Social Security benefits in 2014. That's nearly twice as many as 1998.

The percentage is thought to have stabilized somewhat because of higher standard deductions since then. Next year, the standard deduction will again increase because of inflation.

But, CBO warned, “That share (of beneficiaries paying the tax) is expected to grow

contributions over time,” he said.

There appears to be little appetite to change the law.

“There’s been a reluctance to change individual pieces without a broader look at Social Security,” said David Certner, AARP legislative counsel. The tax was intended to help boost Social Security’s finances, which are expected to face more trouble in the years ahead.

One plan has come from the Republican Study Committee, the House’s conservative policy arm, has proposed phasing out the benefit tax beginning in 2051, saying “Retirees earning Social Security benefits should not be punished for staying active.

That plan is part of a 122-page budget proposal covering a wide range of federal programs. Republicans will control the House of Representatives next year, though Democrats will control the Senate and White House.

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