

Stealth Tax Hits Retirees

Congress Betrayed Social Security Recipients

By **Scott Burns**, syndicated columnist for the Dallas Morning News

Older readers start grinding their teeth when they get their taxes done. This year is no different. The grinding starts when retirees discover that their tax bills are a lot higher than they thought they would be. How can this happen? Simple. When Social Security was created, one of the fundamental promises was that benefits would never be taxed. But that was then. Some retirees have been paying taxes on their benefits since 1984. That was when both parties, in a rare display of bipartisan agreement, voted to begin taxing Social Security benefits.

Two household names that voted for the bill are still in office: Vice President Joe Biden and Sen. John McCain. Both of them claim to support middle-class Americans. Few retirees protested back then. The reason for that is simple, too. The formula for the taxation of benefits is not indexed for inflation. So it acts as a stealth tax, rising as the dollar loses value. While only 3 percent of retirees were expected to pay any taxes back then, inflation has caused more than 30 percent of retirees to pay higher taxes today. More will pay tomorrow, so it's a genuine multigenerational hosing.

The odd thing is that while both parties can get really pious about their desire to strengthen the middle class, the reality is different. The taxation of Social Security benefits is entirely a tax on middle-class people who happen to be retirees. Efforts to repeal the tax have been defeated year after year. Indeed, the tax was increased during the Clinton administration. Don't believe this is a middle-income tax? Well, hang in while we do some tax calculations with Turbo-Tax. So let's see how a tax bill changes by comparing taxes for normal taxable income, such as pensions, retirement account distributions and interest. Then we'll see what happens when Social Security benefits are added.

According to the Social Security website, the average benefits received by a retired worker and his nonworking spouse now total \$23,343 a year.

Here is how the tax bills compare:

- At an income of \$18,000, our couple pays no taxes, with or without the addition of \$23,343 in Social Security benefits.
- Increase other income to \$24,000 for our couple, and their tax bill would be only \$86. But when Social Security benefits are added, the bill rises to \$343. It's a big increase, but it's still a small amount.
- If other income increases by another \$6,000 to \$30,000, their tax bill would be \$763. But when Social Security benefits are added, the bill rises to \$1,265, an increase of 66 percent.
- Add another \$6,000, so other income is \$36,000, and their tax bill would be \$1,387. When Social Security benefits are added, the bill rises to \$2,561, an increase of 85 percent.
- If other income increases another \$6,000 to \$42,000, their tax bill would be \$2,088. Including Social Security would increase the bill to \$4,256, an increase of 104 percent.
- Add still another \$6,000, so their other income is \$48,000, and their tax bill, without considering Social Security benefits, would be \$3,004. But when benefits are added, it goes up to \$5,951, a 98 percent increase.
- Finally, if we add yet another \$6,000, making their other income \$54,000, their tax bill excluding Social Security benefits would be \$3,920. It would rise by \$3,023 to \$6,943 when benefits are considered, an increase of 77 percent. The increase is smaller for this amount because all the Social Security benefits that can be taxed have been taxed.

What's important here is the total income being considered. We're talking about a cash income range from \$41,343 to \$77,343 a year. We're not talking about fat cats or the 1 percent.

Yet Democrats and Republicans both voted to nearly double the tax burden of this group. And they have stood by that vote, year after year, defeating attempts to repeal the tax. The fastest way to improve the income and security of middle-income retirees would be to eliminate this tax. So I have a suggestion. Next time someone running for national office wants to strengthen the middle class, ask what the candidate's position is on HR 3894, the Senior Citizens Tax Elimination Act and the latest effort to repeal this nasty tax.