DESCRIPTION OF THE SOCIAL SECURITY BENEFITS TAX RELIEF ACT OF 2000 (H.R. 4865)

Scheduled for Markup

by the

HOUSE COMMITTEE ON WAYS AND MEANS

on July 19, 2000

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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I. INTRODUCTION

The House Committee on Ways and Means has scheduled a markup of H.R. 4865, the "Social Security Benefits Tax Relief Act of 2000" (H.R. 4865), on July 19, 2000.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the provisions contained in H.R. 4865.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Description of the "Social Security Benefits Tax Relief Act of 2000" (H.R. 4865)* (JCX-73-00) July 17, 2000.

II. THE SOCIAL SECURITY BENEFITS TAX RELIEF ACT OF 2000 (H.R. 4865)

Present Law

In general

Under present law, the amount of Social Security benefits that is taxable depends on the taxpayer's income.[2] Social Security benefits are not taxable in the case of a married taxpayer filing a joint return with income less than or equal to $32,000 ($25,000 in the case of a single taxpayer). Up to 50 percent of Social Security benefits are taxable in the case of a married taxpayer filing a joint return with income over $32,000 but not more than $44,000 (over $25,000 but not more than $34,000 for single taxpayers). Up to 85 percent of Social Security benefits are taxable in the case of a married taxpayer filing a joint return with income over $44,000 (over $34,000 in the case of a single taxpayer).[3] The 85-percent level (or second-tier) tax was added by the Revenue Reconciliation Act of 1993 (the "1993 Act"), effective for taxable years beginning after December 31, 1993.

If a taxpayer's income exceeds the lower threshold but does not exceed the second-tier threshold, then the amount of taxable Social Security benefits is the lesser of (1) 50 percent of the taxpayer's Social Security benefits, or (2) 50 percent of the excess of the taxpayer's income over the lower threshold.

If a taxpayer's income exceeds the second-tier threshold, then the amount of taxable Social Security benefits is the lesser of: (1) 85 percent of the taxpayer's Social Security benefits or (2) the sum of: (a) 85 percent of the excess of the taxpayer's income over the second-tier threshold, plus (b) the smaller of (i) the amount of benefits that would have been included if the 50-percent inclusion rule were applied, or (ii) one-half of the difference between the taxpayer's second-tier threshold and lower threshold.

In determining whether a taxpayer's income exceeds the threshold amounts described above, income includes adjusted gross income ("AGI"), plus one-half of Social Security benefits, plus the following nontaxable items: (1) tax-exempt interest; (2) interest on education savings bonds; (3) employer-provided adoption assistance; (4) deductible student loan interest; (5) foreign earned income; and (6) income earned in Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands.

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[2] Similar rules apply to the taxation of railroad retirement tier 1 benefits.

[3] The threshold amount is zero in the case of a taxpayer who is married at the end of the year, who files a separate return, and who does not live apart from his or her spouse for the entire taxable year.

Special rules apply to a nonresident who is not a U.S. citizen. For purposes of taxing the income of nonresident individuals who are not U.S. citizens, the income thresholds for including Social Security benefits do not apply. Instead, 85 percent of benefits are included in gross income and subject to the withholding tax. Prior to 1995, 50 percent of Social Security benefits were subject to the withholding tax.

Trust funds

Revenues from the income taxation of Social Security benefits attributable to the 1993 Act increase are credited quarterly to the Medicare Hospital Insurance ("HI") Trust Fund. The remainder of the proceeds from the income taxation of Social Security benefits are credited quarterly to the Old-Age and Survivors Insurance Trust Fund or the Disability Insurance Trust Fund, as appropriate.

Description of Proposal

Reduction of tax

The bill would repeal the second-tier, 85-percent level tax on Social Security benefits.[4] Thus, such benefits would be taxed under the law in effect prior to the 1993 Act. The bill would also reduce to 50 percent the amount of Social Security benefits included in the gross income and the amount subject to the withholding tax of a nonresident individual who is not a U.S. citizen.

Trust funds

An amount equal to the revenues from the income taxation of Social Security benefits which would have been credited to the HI Trust Fund under the 1993 Act (but would not be credited under the repeal contained in this bill) would be transferred to the HI Trust Fund from the general fund in the Treasury at such times and in such manner as to replicate the prior-law transfers.

Effective Date

The provisions would be effective for taxable years beginning after December 31, 2000.

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[4] The provisions of the bill would also apply to the taxation of railroad retirement tier 1 benefits.