INSIGHTS

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RETIREMENT STRATEGIES GROUP | SEPTEMBER 2025 LEGISLATIVE UPDATES

The One Big Beautiful Bill Act (OBBBA) on Social Security Taxes: A Deduction—Not a Repeal

The OBBBA introduces a new deduction for individuals ages 65 and older, which may significantly impact tax-planning strategies. This change could mean more clients are concerned about how to manage income thresholds. Are you ready to answer your clients' questions and guide them through the new landscape?

The OBBBA represents a major tax overhaul that will prompt many clients to revisit their current tax-planning strategies. While it makes certain provisions of the Tax Cuts and Jobs Act (TCJA) permanent and introduces new planning opportunities, it also brings added complexity. The Key Provisions blog article linked below offers a high-level summary of the legislation.

This article clarifies the new tax deduction being mistaken as eliminating taxes on Social Security retirement benefits. We'll cover what's actually changing, who may benefit, and key planning considerations.

A New Deduction for Seniors: What It Means

The OBBBA delivers a meaningful benefit for taxpayers ages 65 and older by introducing a new deduction aimed at reducing taxable income. For those on fixed or limited incomes, this change can help ease the tax burden for retirees. It's important to note that this is a deduction—not a credit or exemption—so it doesn't eliminate taxes altogether. However, by lowering the amount of income subject to federal income tax, this deduction can lead to notable savings and improved cash flow for seniors.

The deduction is $6,000 per individual ($12,000 married filing jointly) and is available whether the taxpayer is using the standard deduction or itemizing. When modified adjusted gross income (MAGI) exceeds $75,000/single or $150,000/married filing jointly, the deduction reduces by 6% until it is phased out at $175,000/single or $250,000/joint.

It's important to note that this provision takes effect in 2025 and will remain in place through 2028. Equally important: Clients ages 65 and older can qualify for the deduction regardless of whether they're currently claiming Social Security retirement benefits. In other words, this is not a repeal of Social Security taxation; it's an enhanced deduction designed to benefit older taxpayers.

Let's take a married couple filing jointly in 2025 as an example. Their standard deduction will be $31,500. If both spouses are age 65 or older, they'll receive an additional $1,600 each for a total of $3,200 ($2,000 for single filers).

The new legislation introduces a $6,000 deduction per spouse—an additional $12,000—which applies even if the couple itemizes other deductions. Altogether, this means a senior couple could have up to $46,700 in income before owing any federal income tax in 2025. As illustrated, the deduction doesn't eliminate taxes on Social Security retirement benefits specifically; it simply reduces overall taxable income.

Tax-Planning Strategies Under the OBBBA

Now that we've clarified how the tax provision operates and who can benefit from it, let's explore key strategies for adjusting client portfolios accordingly. The objective is to reduce clients' MAGI below the phaseout thresholds to qualify for the enhanced deduction.

- **Tax-Deferred Annuities**
  Managing taxable income is critical when working within income phaseout ranges. Shifting assets from taxable investments to tax-deferred vehicles, such as annuities, can help time and control the recognition of gains, allowing for lower adjusted gross income (AGI) and, hopefully, taxable income.
- **Qualified Charitable Distributions (QCDs)**
  For charitably inclined clients age 70½ or older, QCDs offer a powerful planning opportunity. In 2025, up to $108,000 can be distributed directly to charities from IRAs, which can help reduce AGI and potentially keep clients below the phaseout threshold. This strategy also can help reduce IRA balances, which could lower future required minimum distributions (RMDs) starting at age 73.
- **Roth Conversions**
  Roth conversions remain attractive under the OBBBA due to the permanent lower tax brackets. However, caution is vital for clients currently age 65 or older. A conversion could push them into (or beyond) the phaseout range, reducing or eliminating the new deduction. A potential sweet spot exists for clients aged 62–64: Converting before 65 can generate future tax-free income, helping them qualify for the deduction later while still accessing Roth benefits. Remember, the deduction is currently only available through 2028, so timing is critical.
- **Absolutely Nothing**
  For adults with lower includable income, no action may be required. Why? They already make below the standard deduction, so they pay no federal income tax.

Give Clients Proper Time to Consider the Options

The OBBBA introduces a significant new tax deduction for older adults, but with it comes added complexity and confusion. This presents an opportunity for you to clarify misconceptions and help clients make informed decisions as more information becomes available. With thoughtful planning, you can position clients to take full advantage of the changes under the OBBBA and avoid costly missteps. Remember: Timing and tailored guidance are key.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients who might need to adjust income thresholds in 2025.**
- **Evaluate whether or not tax-deferral strategies can help.**
- **Implement targeted MAGI-mitigating techniques with high-income clients.**

Additional Resources and Links

[The One Big Beautiful Bill Act: Key Provisions]

[The One Big Beautiful Bill Act]

[Correcting the Social Security Administration About The Big Budget Bill]

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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