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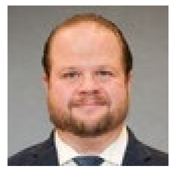
# Looming Social Security Reform Could Reshape Client Tax Planning



Brent Jackson*
KPMG US

On June 9, the Board of Trustees of the Social Security and Medicare Trust Funds released its annual report forecasting that the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds — the primary source of funding for Social Security retirement and survivors benefit — will exhaust their reserves in the fourth quarter of 2032, one quarter earlier than last year's estimate. Absent congressional action, the depletion would trigger a 22% cut to scheduled benefits under current law. Tax professionals who wait for enacted legislation before updating their planning assumptions may find themselves behind the curve. This article focuses primarily on the tax implications of proposed Social Security reforms, while recognizing that benefit changes — such as raising the retirement age, modifying indexing or cost-of-living formulas, or means-testing benefits — remain an important part of the broader reform discussion.

The report cites a drop in the total fertility rate, lower immigration, and recent tax cuts enacted under the One Big Beautiful Bill Act as headwinds on the finances of the funds.

Congress retains a one near-term stop gap — diverting funds from the separate Disability Insurance Trust Fund to finance the OASI Trust Fund — but that maneuver would provide only about two additional years of solvency.

In the wake of the report's release, there has been a flurry of Congressional activity.

- On June 8, the *Bipartisan Social Security Commission Act of 2026*, introduced in the House, proposed creating a bipartisan commission charged with developing substantive amendments to the Social Security Act to enhance

* Brent Jackson is a director in the Washington National Tax Global Mobility Services group.

program solvency. Modeled after the Greenspan Commission that ushered in the *Social Security Amendments of 1983*, this bill would aim to replicate the success that commission had in garnering bipartisan reform support.

- On July 14, a bipartisan group of Senators introduced the *Protecting Retirement and Maintaining Income Security for Everyone (PROMISE) Act*, which would authorize the independent Social Security Advisory Board (SSAB) to release base legislation to improve the solvency of the OASI Trust Funds. This hypothetical bill drafted by the SSAB then subsequently referred to the Senate Finance Committee and House Ways and Means Committee for deliberation and markup.
- On Aug. 5, the Senate Finance Committee convened a hearing on the long-term solvency of Social Security. The committee received testimony from several witnesses and debated the best means to introduce reform proposals.

With the deadline for insolvency rapidly approaching, Congressional leaders will need to muster the political will to make difficult choices. Long-term fixes to the system will require increased revenues, benefit cuts, or both, the prospect of which is politically unpopular.

## Current Law

Under current law, §3101 and §3111 of the Internal Revenue Code establish the employee and employer portions of the Federal Insurance Contributions Act (FICA) tax, respectively. Section 1401 of the Code covers Self-Employment Contributions Act (SECA) taxes on net earnings from self-employment (NESE). FICA and SECA apply at a flat rate to wages from employment (defined at §3121 of the Code) or to individuals who have earned at least $400 in annual NESE (defined at §1402 of the Code).

These taxes are composed of three parts: the OASDI tax, which funds Social Security benefits, the Hospital Insurance tax, which funds Medicare, and an Additional Medicare Tax that applies to high earnings.

The OASDI portion of these taxes (but not the Medicare portions) is subject to a statutory maximum referred to as the "Contribution and Benefit Base." Established under §230 of the Social Security Act, this determines the annual maximum amount of wages or NESE subject to OASDI taxation, and is adjusted annually based on changes in average wages over time. The following rates and thresholds apply for FICA and SECA purposes in 2026:

**Figure 1 - Current FICA and SECA Tax Rates**

| Program | Employer Share (FICA) | Employee Share (FICA) | SECA Amount | Floor on Contributions | Ceiling on Contributions |
|---|---|---|---|---|---|
| OASDI | 6.2% | 6.2 | 12.4 | N/A | $184,500 |
| Medicare | 1.45% | 1.45 | 2.9 | N/A | N/A |
| Additional Medicare Tax | N/A | 0.9 | 0.9 | Varies by filing status-$125,000 for MFS, $250,000 for MFJ, $200,000 for all other filers | N/A |

Source: KPMG LLP

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In addition to payroll taxes, one additional tax that finances the Medicare system is provided for in §1411 of the Code. The Unearned Income Medicare Contribution, more commonly referred to as the Net Investment Income Tax (NIIT), applies at a rate of 3.8% to unearned income of individuals and passive income from a trade or business above certain annual income thresholds. The thresholds vary depending on filing status ($125,000 for married taxpayers filing separately, $250,000 for married taxpayers filing jointly or qualifying surviving spouses, and $200,000 for all other filers).

## Recent Legislative Proposals

In recent years, members of Congress have proposed several revenue changes designed to improve the finances of the combined OASDI Trust Funds. While very few changes have been enacted, some of these proposals may inform the final reform package that does ultimately enter into law.

**Increase the FICA and SECA OASDI tax rate percentages.** One of the most straightforward proposals to enhance the solvency of the combined OASDI Trust Funds is to increase the employer and/or employee share of the FICA and SECA tax. Except for the introduction of the Additional Medicare Tax and the NIIT under the Affordable Care Act, FICA and SECA tax rates have remained unchanged since 1990. Increasing these rates would generate additional revenue to bolster the solvency of the OASDI Trust Funds.

One example of recent legislation that proposes such a measure is the *Social Security Enhancement and Protection Act of 2025* (SSEPA). It proposes amendments to §3101(a) and §3111(a) of the Code to gradually phase in a 0.6% increase in the employee and employer share of FICA, with corresponding amendments to §1401(a) of the Code that would apply to SECA taxes. The employer and employee share would each increase by 0.05% per year over six years, beginning with the year following enactment, and the self-employment percentage would increase by 0.1% per year.

### Figure 2 - OASDI Tax Increases by Year Under Proposed SSEPA

| Year After Enactment | Employer Rate % (FICA) | Employee Rate % (FICA) | SECA Rate % |
|---|---|---|---|
| Year 1 | 6.25 | 6.25 | 12.5 |
| Year 2 | 6.3 | 6.3 | 12.6 |
| Year 3 | 6.35 | 6.35 | 12.7 |
| Year 4 | 6.4 | 6.4 | 12.8 |
| Year 5 | 6.45 | 6.45 | 12.9 |
| Year 6 | 6.5 | 6.5 | 13 |

Source: KPMG LLP

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**Increase (or eliminate) the Contribution and Benefit Base**. Several pieces of recent legislation have proposed increasing or eliminating the Contribution and Benefit Base amount that currently limits the percentage of wages or NESE subject to tax. Increasing the amount of wages subject to the OASDI tax would result in higher revenues accumulating in the OASDI Trust Funds and thus extend their solvency.

The Protecting and Preserving Social Security Act (PPSSA) and SSEPA both eliminate the Contribution and Benefit Base entirely across a phased-in period that spans six and ten years, respectively. Both bills would add new subsections to §3121(a)(1) and §1402(b)(2) that specify the portion of income above the annual statutory maximum that is subject to OASDI tax, with all income subject to OASDI tax at the end of the specified phase-in periods.

**Figure 3 - Percentage of Income Above Contribution and Benefit Base Subject to OASDI Tax by Year After Enactment Under PPSSA and SSEPA**

| Year | Protecting and Preserving Social Security Act % | Social Security Enhancement and Protection Act of 2025 % |
|---|---|---|
| 1 | 14 | 10 |
| 2 | 29 | 20 |
| 3 | 43 | 30 |
| 4 | 71 | 40 |
| 5 | 86 | 50 |
| 6 | 100 | 60 |
| 7 | 100 | 70 |
| 8 | 100 | 80 |
| 9 | 100 | 90 |
| 10 | 100 | 100 |

Source: KPMG LLP

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The Medicare and Social Security Fair Share Act (MSSFSA) and the Social Security 2100 Act (2100 Act) both amend §3121(a) and §1402(b) of the Code to create a second annual income threshold of $400,000, above which OASDI FICA and SECA contributions will apply. Thus, the OASDI portions of FICA and SECA would continue to apply up to the annual Contribution and Benefit Base maximum and cease to be applied on earnings of up to $400,000. Any earnings above that amount would again be subject to the OASDI FICA or SECA taxes.

The MSSFSA includes a proposed additional paragraph in §3101(b) of the Code to create a second earnings threshold above which the Additional Medicare Tax increases from 0.9% to 1.2%. These thresholds are $500,000 for married taxpayers filing jointly, $250,000 for married taxpayers filing separately, and $400,000 for all other taxpayers.

The Social Security Expansion Act (SSEA) and the You Earned It, You Keep It Act likewise amend §3121(a) and §1402(b) of the Code to create a second threshold above the Contribution and Benefit Base, albeit with a lower floor of $250,000. Therefore, any earnings above $250,000 would be subject to the OASDI portion of FICA and SECA.

It is important to note that none of the earnings thresholds proposed in the aforementioned legislation are indexed for inflation. Thus, as the Contribution and Benefit Base rises over time to meet these thresholds, FICA and SECA taxes would apply to all earnings —effectively aligning their treatment with Medicare contributions under current law.

**Expand the NIIT**. The SSEA and the 2100 Act also provide for an increase in the NIIT. The former increases the NIIT from 3.8% of income to 16.2% of income, while the latter creates a new NIIT rate of 12.4% on annual investment income in excess of an unindexed $400,000. The 2100 Act leaves the 3.8% NIIT in place for annual income above the thresholds provided for under current law ($125,000 for married individuals filing separately, $250,000 for married individuals filing jointly and qualifying surviving spouses, and $200,000 for all other filers) but applies the higher rate to income above the second threshold ($400,000).

The SSEA also significantly changes the scope of income subject to the NIIT. Under current §1411(c)(2), the NIIT applies to income from trades or businesses only if the activity is a passive activity with respect to the taxpayer or a trade or business of trading in financial instruments or commodities. This allows individuals who hold ownership of and actively participate in a passthrough entity (such as an S-Corporation, partnership, or limited liability company) to exempt any investment income attributable to that entity from the NIIT.

The SSEA amends §1411 to provide that income from any trade or business is taken into account for NIIT purposes for high-income taxpayers, whether such income is passive or non-passive under §469, thus including active passthrough business income within the NIIT base above the bill's thresholds. This would significantly expand the income base to include active participation in a trade or business, raising additional revenue that would be deposited in the OASDI Trust Funds.

**2028 presidential campaign**. Given the projected date of insolvency of the OASI Trust Fund in the fourth quarter of 2032, Social Security reform seems likely to be a topic during the 2028 presidential campaign if a resolution is not found by that time. Past presidential platforms have addressed Social Security reform to varying degrees, and given the potential for near-term insolvency, some of these proposals may reappear in advance of the 2028 campaign.

While the 2024 Harris platform did not make any specific proposals to address Social Security's long-range actuarial deficit, then-Senator Kamala Harris co-sponsored an earlier version of the SSEA in 2019. As mentioned previously, this bill contains a substantial number of contribution increases, including a significant expansion of the NIIT and a second wage threshold above which FICA and SECA taxes will apply.

The Biden 2020 campaign platform included one proposal to increase Trust Fund revenue. Mirroring the 2100 Act, the platform included a so-called "donut hole" provision whereby wages up to the current Contribution and Benefit base would be taxed for FICA and SECA purposes. These taxes would then cease to apply (and thus falling into a "donut hole") until wages exceed $400,000, at which point wages would again be subject to FICA or SECA contributions.

Finally, the Trump 2024 platform did not include any new revenue provisions designed to address the long-range actuarial deficits, but did include a "no tax on Social Security" proposal that would have eliminated income taxation on social security benefits. While the "no tax on Social Security" policy has not been enacted, the OBBBA instead ushered in a new income tax deduction for seniors aged 65 or older, likely due to limitations on enacting changes to the OASDI program via the reconciliation process. Estimates on past proposals to eliminate income taxation on Social Security benefits have shown a negative effect on the long-range actuarial balance of the Trust Funds.

**Comparative analysis of effects on Trust Fund solvency.** According to the 2026 Trustee's Report, the long-range actuarial deficit affecting the OASDI Trust Funds is about 4.42% of taxable payroll. The Social Security Administration's (SSA) Office of the Chief Actuary conducts analyses on the effects that various legislative proposals would have on the Social Security Trust Funds, including how such proposals might affect the actuarial deficit. Reviewing these analyses and their potential efficacy in improving the finances of the Trust Funds can help inform decisions about their viability.

**Increase the FICA and SECA OASDI tax rate percentages.** In its analysis of the SSEPA, SSA found that increasing the OASDI tax rate would have a relatively modest positive effect on the combined OASDI Trust Funds, reducing the long-range actuarial deficit by 0.56% of taxable payroll. This limited effect likely reflects the relatively small size of the proposed rate increase (0.6 percentage points cumulatively). In a previous analysis, a similarly modest increase of 0.2% to the OASDI tax rates was forecast to result in a 0.19% reduction in the long-range actuarial deficit.This indicates that in the absence of additional reforms, significantly higher rate increases would be needed to bring the OASDI Trust Funds back into balance.

**Increase (or eliminate) the Contribution and Benefit Base.** SSA found that recent legislative proposals to increase or eliminate the Contribution and Benefit Base would have a materially greater effect on the OASDI Trust Funds, eliminating an average of approximately 2.25% (or close to half) of the long-range actuarial deficit across the legislation covered in this article. Some of these proposals provide for no additional benefit calculation attributable to earnings above the current Contribution and Benefit Base threshold, while others establish a benefit calculation that provides a lower replacement rate for earnings above the Contribution and Benefit Base. Proposals that do not provide additional benefits would be expected to reduce the actuarial deficit to a greater extent because they would not create additional benefit outlays.

**Expand the NIIT.** SSA estimates that expanding the NIIT would have an effect on the Trust Funds that falls between the previous two policies. The more modest expansion of the NIIT under the 2100 Act, which maintains the current NIIT rate but establishes a higher rate on investment income above $400,000, would decrease the long-range actuarial deficit by 1.2% of taxable payroll. The more ambitious SSEA, however, which increases the NIIT at the current thresholds to 16.2%, would reduce the long-range actuarial deficit by 1.93% of taxable payroll. If the Medicare Tax loophole closure is enacted, it would add an additional reduction of 0.92% of taxable payroll.

## Figure 4 - Percentage of Long-Range Actuarial Shortfall Eliminated under Individual Reform Proposals

| Legislation | Tax Proposal | Estimated Long-Range Actuarial Shortfall Eliminated as Estimated by Social Security Administration (%) |
|---|---|---|
| Social Security Enhancement and Protection Act | Increase the OASDI Tax by 0.1% over 6 Years | 14 |
| | Phase Out the Benefit and Computation Base over 10 Years | 52 |
| Protecting and Preserving Social Security Act | Phase Out the Benefits and Computation Base over 6 Years | 62 |
| Medicare and Social Security Fair Share Act | Apply OASDI taxes to annual earnings above $400,000 | 58 |
| Social Security 2100 Act | Apply OASDI taxes to annual earnings above $400,000 | 58 |
| | Apply a separate 12.4% tax on net investment income for taxpayers earning over $400,000 annually | 32 |
| Social Security Expansion Act | Apply OASDI taxes to annual earnings above $250,000 | 65 |
| | Apply a separate 12.4% tax on net investment income at current thresholds | 35 |
| | Apply a new 12.4% tax to net investment income attributable to active participating in a trade or business at current NIIT thresholds | 25 |
| You Earned It, You Keep It Act | Apply OASDI taxes to annual earnings above $250,000 | 65 |

Source: KPMG LLP

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## Key Takeaways

Tax professionals should be aware that due to the rapidly approaching date of insolvency, there may be major changes to Social Security in the near future that should be accounted for in their clients' long-term financial and tax planning. No single highlighted policy would completely eliminate the actuarial deficit, so it is likely that any revenue solution would need to feature an array of legislative and policy changes.

In addition to revenue enhancements, measures not included in the scope of this article — such as benefit reductions or the creation of a sovereign wealth fund to invest accumulated OASDI Trust Fund reserves in non-governmental equities — have been a significant portion of the discussion surrounding Social Security reform, and will likely continue to be so.

Because neither benefit reductions nor tax increases are politically popular, and reform exclusively through either means would entail creating a significant burden on beneficiaries or taxpayers, spreading out smaller adjustments across both tax and benefits may be an attractive option for Congress.