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Republicans push to give your savings account a tax cut

Joseph Lawler

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House Republicans, having cut taxes on business income and individual earnings, are now looking to cut them on savings, through new universal savings accounts.

The House GOP attached the accounts, allowing individuals to save up to $2,500 annually on a tax-privileged basis, to what they are calling “Tax Reform 2.0" — a permanent extension of the individual-side tax cuts included in the December tax law.

House Republicans advanced the legislation through the Ways and Means Committee last week. The legislative package isn’t expected to reach President Trump’s desk this year, but the inclusion of the savings accounts sets up a future GOP Congress to enact them and transform the way Americans save.

At a basic level, Republicans say they want the accounts in order to encourage saving.

“We’re a nation of spenders and not of savers,” said Rep. Mike Kelly, R-Pa., the author of the Family Savings Act of 2018 that would create the universal savings accounts, or USAs, in addition to expanding existing tax-privileged retirement savings accounts.

The accounts would give individuals a tax-privileged savings option far more accessible than the ones that exist today, such as company-sponsored 401(k)s or 529 college savings plans.

Any individual would be able to put up to $2,500 each year after-tax, and then take out savings tax-free for whatever purpose — retirement, a down payment, car repairs, etc. There wouldn’t be any income limits or penalties for early withdrawals.

As currently constituted, the USAs would lower federal revenues by $8.6 billion over 10 years, according to Congress’ Joint Committee on Taxation.

Chris Edwards, an expert at the Cato Institute who has been promoting the idea of USAs since 2002, explained that he views them as a tool for reducing the bias against savings in the tax code.

The problem, in Edwards' view, is that individuals are taxed for saving, but not for consuming. Once an earner has paid the income tax, he has two choices with what to do with his money: One is to spend it on current consumption, for which he'd pay no tax. The other is to save the money and then take it out in the future to spend on consumption, at which point he would have to pay taxes on the saving in the form of interest, dividends or capital gains taxes.

The massive tax overhaul that Republicans passed in December did not include many changes to taxes on investment and savings. Unlike past GOP efforts, for instance, the legislation did not cut capital gains tax rates. At the time Republicans were hashing out the bill, some were interested in including universal savings accounts, but ultimately they didn't make the bill's text. Rep. Dave Brat, R-Va., and Sen. Jeff Flake, R-Ariz., in particular, had introduced legislation to create USAs allowing for annual contributions of up to $5,500.

The "Tax Reform 2.0" legislation is a flawed vehicle because, although leaders hope to pass it in the House before the midterm elections, it is not likely to get a vote in the Senate this year.

Nevertheless, if House Republicans pass the USA legislation, they will be ready for a future Congress to pick up. Kelly compared their task to that of Sisyphus, the Greek mythological character condemned to futility. "We're going to keep pushing that rock up the hill," he said.

Also, USAs, once written into law, could be expanded and liberalized.

Citizens of the United Kingdom, for instance, have access to a similar but much larger savings vehicle: Individual Savings Accounts, enacted under former Prime Minister Tony Blair, which allow for annual contributions of up to £20,000, or about $26,000. A large minority of people have them. In Canada, a majority of adults have Tax-Free Savings Accounts, created in 2009, that allow contributions of at least $5,500 Canadian, or about $4,200 U.S.

One criticism of USAs, lodged by the left-of-center Center on Budget and Policy Priorities, is that they would mostly benefit wealthy families who have savings in the first place, without encouraging more saving. Rather than encourage savings, think tank analyst Brendan Duke argued, the accounts could simply provide a tax break for people already stashing away savings. In some cases, it could actually discourage retirement savings, because, unlike with 401(k)s, account holders would not have to wait until retirement to take out savings while avoiding tax penalties.

"The universal savings account would be a universal tax shelter for those at the top," Rep. Lloyd Doggett, D-Texas, said at last week's committee vote on the savings accounts bill.

In response, Kelly suggested that he favors giving today's savers reason to save even more.

"That's like telling someone on a healthy diet, 'We don't want you to eat anything healthier than you're eating now, because you're going to be too healthy,'" he said in response to the critique.