CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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Low Savings Rate Prompts JEC Chairman Saxton to Call for IRA Expansion in New Tax Bill

WASHINGTON, DC – Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ) called for expanded IRAs in any 1998 tax bill, citing today's release by the Commerce Department showing a personal savings rate of only 4.2% in the second quarter of 1997. Though this is a slight improvement over the first quarter figure, the personal savings rate in the second quarter and over the last four quarters remains well below that of other advanced countries. The U.S. personal savings rate has been trending downward for several years.

"The inclusion of expanded IRAs in this new tax bill would be a positive step toward increasing incentives to save, and allowing middle-class taxpayers to accumulate sizable investments. This increase in IRA deductions would help middle-class families save for their future. It would also allow them to become more financially independent and enable them to deal with unexpected events, while depending less on government assistance. This is a tax cut that average Americans would understand and strongly support," stated Saxton.

Earlier this year Saxton introduced a bill entitled the Investment Revitalization Act of 1997, which was designed to greatly increase the deduction ceilings for IRA contributions. "It is time that we put an end to years of inadequate levels of personal saving and investment. Research has demonstrated that our income tax system is biased against personal saving, thus, making it more difficult for families to accumulate the resources necessary to successfully address their economic needs," said Saxton.

This bias against saving can be improved by increasing the tax deduction for IRA contributions, currently set at $2,000 annually. This Saxton bill (H.R.891) would boost IRA deduction limits $500 per year over several years. When fully phased in, a middle-class family could deduct up to $7,000 for an annual IRA contribution.

The goal of an IRA expansion is not only to increase incentives to save, but to boost long-term economic growth, while helping middle-class taxpayers help themselves in addressing a variety of economic contingencies. Increases in IRA deductions would also increase personal saving, which is a major source of investment and economic growth. IRA deductions would help firms to supply their workers with the best and most advanced tools, thus increasing their productivity and income. "The current treatment of saving in our tax code is literally counterproductive. If we want personal saving to increase, we should increase IRA deductions," concluded Saxton.

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