



CONGRESS OF THE UNITED STATES

# JOINT ECONOMIC COMMITTEE

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## PRESS ADVISORY

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### **New Incentives for Middle Class Saving -- 30 Million Taxpayers Will Pay No Taxes on Interest or Dividends --**

**Washington, DC** — A new bill that will be introduced in Congress this month would allow taxpayers to exempt the first \$200 (\$400 for married couples) of their interest and dividend income from taxation. If signed into law, this proposal would provide tax relief to approximately 57 percent of all taxpayers. This bill also would boost saving incentives for low- and middle-income households, according to a **Joint Economic Committee (JEC)** study, entitled [\*The Effects of Allowing an Interest and Dividend Exclusion\*](#).

One fundamental problem with the tax code is that it discourages saving by taxing personal saving at several different levels. As a result, households that set aside funds for saving instead of consumption end up paying more taxes. "Middle class saving should be shielded from multiple taxation so that families can save without being subject to unfair tax discrimination," said **JEC Chairman Jim Saxton (R-NJ)**.

The bias against saving contributes to a low U.S. saving rate and reduces the potential for long-run economic growth. In 1995, the U.S. personal saving rate was 4.8 percent – the lowest among the G-7 countries. In 1997, personal saving fell to only 3.8 percent. The low personal saving rate will become a major issue as Congress begins considering tax code improvements. "Until we can reach some consensus on broad-based tax reform, we need to promote policies that incrementally enhance saving incentives and improve the efficiency of the tax code," Saxton said.

In 1995, approximately 66 million households (57 percent of all taxpayers) could have benefited from an interest or dividend exclusion if it were allowed in the law. Twenty-three percent of those taxpayers had adjusted gross incomes (AGI) under \$15,000, and 67 percent had AGI less than \$50,000. Estimates indicate that 30 million taxpayers would not pay any taxes on their interest and dividend income if the proposal is enacted.

Because of the low exclusion caps of \$200 and \$400, the proposal would primarily benefit low- and middle-income households who earn low levels of investment income. Those households would not be taxed on a substantial amount of their income from saving. In addition, they would receive more valuable tax relief relative to high-income households when the benefits are measured as a percentage of income.

The JEC has released several studies that explore various proposals to enhance saving and investment, such as expanding Individual Retirement Accounts (IRA) and reducing capital gains tax rates. For a copy of this or other JEC reports, contact the JEC by calling (202) 224-5171 or view its website at [www.house.gov/jec](http://www.house.gov/jec).

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