Encouraging Americans to Save Act

The *Encouraging Americans to Save Act* (EASA) would reform an existing tax credit into a federal matching contribution for middle and low income working Americans who contribute to a retirement savings account. The credit would be available whether they save at work through an employer-sponsored plan, such as a 401(k) plan, or on their own through an IRA.

Significantly, the legislation would offer matching contributions for the first time to millions of individuals not covered by an employer-sponsored retirement plan, including those who save through an IRA under a state or local government program—such as OregonSaves. These programs automatically enroll workers who do not have access to an employer-sponsored retirement plan in payroll deduction IRAs. The government match provided under EASA would both encourage saving and help middle and low income earners build assets by providing an immediate, meaningful return on their personal contributions.

What's the impact?

EASA would help middle and low income savers, many of whom do not benefit from the current saver's credit because they have no income tax liability. This is because the reformed credit would be fully refundable, regardless of the size of the saver's income tax liability. Because the government match would be deposited directly into the taxpayer's account instead of being sent to the individual as a tax refund, the money would be saved rather than spent.

How would it work?

EASA would replace the current saver's credit with a simple, 50% government match on contributions of up to $2,000 per year made to 401(k)-type plans and IRAs by individuals with income up to $32,500 and couples with income up to $65,000. As under current law, the maximum credit is $1,000 per individual.

- The amount of the match would phase out over the next $10,000 of income for individuals and $20,000 for couples. A $100 minimum credit would be provided if the phase-out rules would otherwise result in a credit amount between one cent and $100.
- These income limits and the cap on the eligible contribution amount would be indexed.
- The match would be claimed on the individual's income tax return and deposited directly into a worker's IRA, 401(k), or similar account using the account number provided by the worker. If the individual provides an erroneous account number or none at all, the match would be deposited automatically into a Roth R-bond account.
- The refundable credit would also be available for contributions made to ABLE Accounts, and would be deposited in those accounts.

An R-bond account is an IRA maintained by the U.S. Treasury Department. The R-bond program is similar to the myRA program that was established by the Obama administration. Amounts saved in R-bond accounts are invested in Treasury bonds.

The legislation also provides for a coronavirus recovery bonus credit. The bonus credit is an additional 50% credit on the first $10,000 in retirement savings made during a five year period beginning in 2023—for a maximum additional credit of up to $5,000. This bonus credit phases out based on the same rules as the permanent credit.

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Section by Section Summary

Section 1—Short title. The title of the bill is the Encouraging Americans to Save Act (EASA).

Section 2—Matching Payments for Elective Deferrals and IRA Contributions. This section reforms the present law saver's credit by making it a refundable matching contribution that is directly deposited into the retirement accounts of middle and low income savers. A 50% government match is available on the first $2,000 of savings per year to an IRA, 401(k) plan, 403(b) tax-deferred annuity, or a section 457(b) governmental plan for individuals with income up to $32,500 ($65,000 for couples). The 50% rate is phased out over $10,000 in earnings ($20,000 for a couple); however, a $100 minimum credit is provided under the legislation if the phase-out would otherwise result in a credit between one cent and $100. The credit is also available for contributions to ABLE Accounts, with the credit deposited in such accounts.

Additionally, the legislation provides for a time-limited coronavirus recovery bonus credit. The bonus credit is an additional 50% credit on the first $10,000 in retirement savings made during a five year period beginning in 2023. This additional credit phases out based on the same rules as the permanent credit.

Section 3—Establishment of Federal R-Bond Program. This section would establish the R-Bond program which is similar to the Obama Administration's myRA program. The Treasury Department would be authorized to issue rules coordinating the establishment of R-bond accounts in connection with state and local government laws that enroll workers in retirement savings accounts.

Section 4—Promotion and Guidance. This section requires the Secretary of the Treasury to educate taxpayers on the benefits of the refundable government matching contribution established by EASA, as well as the R-Bond Program. It also requires employers to include information about the savers credit and R-Bond Program in retirement plan communication materials that are already required to be provided under current law.

Section 5—Deadline to Fund IRA with Tax Refund. This section would allow a taxpayer to fund an IRA using his or her tax refund, and the IRA contribution will be treated as for the tax year that is the subject of the return—with the result that any deduction and savers credit the taxpayer qualifies for could also be claimed for that year. Current rules allow IRA funding using a tax refund, but the refund must be paid into the IRA by the tax return due date in order to be treated as a contribution for the tax year of the return. If that doesn't happen, then the contribution is for the tax year the return is actually filed in—so the taxpayer must amend the return because he or she loses any deduction and saver's credit. (See page 2 of Form 8888.) Section 5 avoids this result. Section 4 of the bill also allows a taxpayer to establish a new IRA on the tax return using the R-bond program. So, with this change and section 5, a taxpayer could fund a new IRA with his or her refund and get the government matching contribution, all with no effort other than filling out the return.