

# Saver's Bonus Act of 2007 (S. 3372)

## **EXPAND SAVINGS OPPORTUNITIES FOR LOW-INCOME TAX FILERS**

### **PURPOSE: ENCOURAGING NEW SAVINGS AND FINANCIAL STABILITY FOR LOW-INCOME FAMILIES**

To promote savings for low-income families by providing a match through the tax filing process for earned income tax credit (EITC) eligible tax filers who contribute to designated savings products.

### **BACKGROUND: EXPAND SAVINGS INCENTIVES TO LOW-INCOME HOUSEHOLDS**

Federal policy encourages wealth building for middle- and upper-income families due to the existence of enabling systems and incentives. More than \$367 billion a year is invested through tax deductions for mortgage interest and property tax payments, tax preferences for capital gains and retirement savings and discretionary programs. In addition, automatic payroll deductions into retirement products through the workplace facilitate families' ability to achieve financial security. Low-income tax filers, however, are less likely to have access to a retirement plan at work: nearly half the workforce does not have a retirement plan offered by their employer. Low-income filers also are less likely to have banking products. Thus, they need other avenues to save and build wealth.

### **LEGISLATION INTRODUCED: SAVE AND RECEIVE A MATCH AT TAX TIME**

On July 31, 2008 Senator Robert Menendez (D-NJ) introduced the Saver's Bonus Act of 2007 (S. 3372). The bill is designed to promote saving by providing a match for eligible tax filers who contribute to designated savings products and to facilitate tax filers receiving the match and opening a bank account when they file their Federal income tax returns.

Individuals who direct their Federal income tax refund into any designated savings product shall be eligible for a dollar-for-dollar match or saver's bonus of up to \$500 into that account. In addition, individuals who claim on their tax return to have deposited funds into designated savings products during the year shall be eligible for the Saver's Bonus. Designated products will include Individual Retirement Accounts, 401 (k)s, 529 College Savings Plans, Coverdell Education Accounts, savings bonds and certificates of deposit with durations of at least six months. Individuals will be eligible to receive the Saver's Bonus if their income is equivalent to up to 120 percent of the threshold to receive the Earned Income Tax Credit.

Furthermore, the Act requires that tax filers be able to open a savings product and purchase U.S. Savings Bonds directly on their federal income tax return. Both will qualify for the Saver's Bonus. Using the IRS split refund form (Form 8888), tax filers can still divide their refund into a maximum of three accounts. Using a routing and account number, the funds are transferred electronically to the accounts by the IRS. This 2007 IRS improvement creates a vital mechanism, enabling tax filers to save all or part of their tax refund.

The Saver's Bonus Act simplifies and eases families' ability to save and build wealth through a number of short- middle- and long-term savings products.

### **EXPANDING OPPORTUNITY FOR AMERICA'S FAMILIES**

The Saver's Bonus Act expands the wealth building infrastructure to more families. Despite facing considerable financial challenges, low-income families recognize the importance of saving and will do so when presented with the appropriate mechanism and incentive. The Saver's Bonus Act presents a critical opportunity to expand savings millions of low-income tax filers' ability to build adequate savings for financial self-reliance and retirement security.

For more information, contact CFED or the New America Foundation at [newamerica.net/assetbuilding](http://newamerica.net/assetbuilding) or (202) 986-2700.