



CUNA & Affiliates

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**STATEMENT FOR THE RECORD
OF THE
CREDIT UNION NATIONAL ASSOCIATION
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS
ON
“PRESIDENT’S FISCAL YEAR 2005 BUDGET”**

February 11, 2004

The President's 2005 Budget, which was transmitted to the Congress on February 2, 2004, contains a number of proposals that the Credit Union National Association (CUNA) supports. CUNA represents over 90 percent of the nation's approximately 10,000 state and federally chartered credit unions and their 84 million members. We are pleased to provide comments for the record in connection with the February 11, 2004, hearing of the House Committee on Ways and Means on the "President's Fiscal Year 2005 Budget."

The Administration's FY 2005 budget plan would, among other things, create an Individual Development Account (IDA) tax credit and simplify personal saving by replacing existing tax-preferred saving options with Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs) and Employer Retirement Savings Accounts (ERSAs).

IDAs are matched savings accounts that may be opened by persons who meet a net worth test and are eligible for the Earned Income Tax Credit or Temporary Assistance for Needy Families. The accounts are restricted to three uses: 1) buying a first home; 2) funding post-secondary education or training; or 3) starting or improving a small business. They were first authorized by the Personal Work and Responsibility Act of 1996 (P.L. 104-193). In 1998, the Assets for Independence Act (P.L. 105-285) established a five-year \$125 million demonstration program administered by the Department of Health and Human Services to evaluate the effects of savings incentives on persons of limited means.

Currently, contributions are not deductible but are matched by contributions from a program run by a state or a participating nonprofit organization. Matching contributions and their earnings are not taxed to the individual. The Administration's IDA proposal would provide dollar-for-dollar matching contributions of up to \$500 supported by a 100 percent transferable tax credit to sponsoring financial institutions. An additional \$50 per account per year would be available to offset administrative costs and expenses associated with providing financial literacy training.

In this connection, CUNA notes that H.R. 7, the "*Charitable Giving Act*," passed by the House on September 17, 2003, by a vote of 408-13 and S. 476, *The Charity, Aid, Recovery and Empowerment (CARE) Act of 2003*, passed by the Senate on April 9, 2003, by a vote of 95-5 both contain IDA expansion provisions and await further congressional action in conference. We urge you to include the transferable tax credit provision included in the Senate bill in the final agreement reached on this most important legislation.

Under the Administration's Lifetime Savings Accounts proposal, individuals of any age or income could contribute up to \$5,000 annually (nondeductible) to a LSA, regardless of whether they had any earnings that year. Investment earnings and distributions from the account would be tax-free. There would be no required distributions from LSAs during the account owner's lifetime. Coverdell Education Savings Accounts (ESAs) and Section 529 Qualified State Tuition Plans (QSTPs) could be converted to LSAs up to December 31, 2005.

We agree that these more relaxed rules could encourage individuals to save who might otherwise not do so in targeted savings plans because of restrictions on and penalties for withdrawals.

The Administration's Retirement Savings Account proposal would allow individuals of any age or income to contribute up to \$5,000 per year¹ (nondeductible) from earned income to a RSA. Qualified distributions² would be tax-free. All other distributions would be subject to tax on amounts exceeding contributions. Current "Roth IRAs" would be renamed RSAs and would be subject to the rules for RSAs. Owners of traditional IRAs could convert them to RSAs.

We agree that RSAs would simplify the range of choices for taxpayers saving for retirement by making the Roth IRA concept available to all taxpayers. Any taxpayer could contribute up to the lesser of \$5,000 or their earned income. Unlike current law, however, withdrawals could only be made for retirement, beginning at age 58. RSAs would address a key component of retirement – personal savings.

By eliminating income restrictions, the RSA could become a strong vehicle for retirement savings, particularly for those who are within a decade of beginning to retire.

The Employer Retirement Savings Accounts proposal would make many of the employer plans easier to understand. Beginning in 2005, §401(k), §403(b), Savings Incentive Match Plans for Employees (SIMPLE plans), Simplified Employee Pension (SEP) plans and governmental §457 plans would be consolidated into ERSAs, which would be available to all employers. Qualification rules under the Internal Revenue Code would be simplified.

LSAs, RSAs and ERSAs could provide additional encouragement for all taxpayers to save. However, we urge you to also include and expand the current law SAVER's tax credit in the provision.

American's private savings rate remains low and many low- and middle-income individuals continue to have inadequate savings or no savings at all. Lower income families remain more likely to be more budget constrained with competing needs such as food, clothing, shelter, and medical care taking a larger portion of their income. Applying the SAVER's credit to RSA and ERSA contributions would provide a needed additional tax incentive that would enhance their ability to save adequately for retirement. We believe the credit should also be made refundable to be available to individuals who might not have to pay tax in any particular year.

CUNA urges Congress to pass tax legislation that would encourage all Americans to increase personal savings. We understand that Congress may address other tax matters, either as a part of this package or later in this session. Should such an opportunity arise, we request that you consider legislation that would:

¹ For a married couple, the maximum contribution would be the lesser of annual earned income or \$10,000.

² Qualified distributions would be those made after age 58 or if the account owner died or became disabled.

- Simplify the Earned Income Tax Credit;
- Create Farm, Fish, and Ranch Risk Management Accounts ("FFARRM" accounts);
- Permanently extend the retirement and savings provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 EGTRRA;
- Permit tax free withdrawals from IRAs for charitable contributions;
- Provide a tax credit for developers of affordable single-family housing;
- Permanently extend the disclosure of tax return information for administration of student loans; and
- Extend the protections of section 7508 of the Code to all Armed Forces reservists and National Guardsmen called to active duty.

CONCLUSION

CUNA appreciates having this opportunity to present our views on the revenue provisions contained in the President's fiscal year 2005 budget proposal. We look forward to working with you in the future on these most important matters.