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114TH CONGRESS
1ST SESSION

H. R. 4236

To promote savings by providing a tax credit for eligible taxpayers who contribute to savings products and to facilitate taxpayers receiving this credit and open a designated savings product when they file their Federal income tax returns.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 10, 2015

Mr. SERRANO (for himself, Mr. CROWLEY, Mr. ELLISON, Mr. HINOJOSA, Ms. MENG, Mr. PIERLUISI, Mr. CARTWRIGHT, Mr. NOLAN, Ms. DELAURO, Mr. VARGAS, Ms. ROYBAL-ALLARD, Ms. MICHELLE LUJAN GRISHAM of New Mexico, Mr. BEN RAY LUJÁN of New Mexico, Mr. JEFFRIES, Ms. CLARKE of New York, Ms. VELÁZQUEZ, and Mr. HASTINGS) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To promote savings by providing a tax credit for eligible taxpayers who contribute to savings products and to facilitate taxpayers receiving this credit and open a designated savings product when they file their Federal income tax returns.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ‘‘Financial Security Credit Act of 2015’’.

SEC. 2. FINDINGS.

Congress finds the following:

(1) United States households are experiencing significant levels of financial vulnerability, characterized by a lack of personal savings. The personal savings rate reached historic lows in the past decade, and a lack of personal savings was a major contributor to the recession of 2007–2009, and to the slow recovery of ensuing years.

(2) Households continue to lack the savings or structures to meet short-term and long-term needs, as evidenced by the following:

(A) According to the Employee Benefit Research Institute, among full-time, full-year wage and salary workers ages 21–64, only 54.5 percent participated in a retirement plan in 2013.

(B) According to the Federal Deposit Insurance Corporation 2013 Survey of Unbanked and Underbanked Households, an estimated 7.7 percent of United States households are unbanked. These households do not have a checking or savings account. In total, 31.2 percent of households do not have a savings account.

(C) According to the Pew Charitable Trusts, the majority of American households

(55 percent) are savings-limited, meaning they can replace less than one month of their income through liquid savings.

(3) Financial shocks are common and savings make households more resilient to financial shocks and more upwardly mobile, as evidenced by the following:

(A) Substantial fluctuations in family income are the norm. In any given 2-year period, nearly half of households experience an income gain or drop of more than 25 percent, a rate of volatility that has been relatively constant since 1979.

(B) Even small sums of savings, $2,000 or less, have been shown to significantly reduce the incidence of negative financial or material outcomes, such as foregoing adequate nutrition.

(C) Children born to low-income, high-saving parents are much more likely (71 percent) to move up the economic ladder than children born to low-income, low-saving parents (50 percent) over a generation.

(4) Emergency savings are necessary to protect retirement savings from early, penalized withdrawals and to support long-term retirement security.

(5) Successful pilot programs administered through local Volunteer Income Tax Assistance sites in cities as diverse as Houston, Texas; Newark, New Jersey; New York City, New York; San Antonio, Texas; and Tulsa, Oklahoma, have shown that tax filers with low incomes can and will save when presented with the right incentive at the right moment and access to an account. The potential of increasing savings at tax time among low- and moderate-income households has been further validated by the low-touch, large-scale pilot Refund to Savings.

(6) It is in the economic interests of the United States to promote savings among all members of society, regardless of income.

SEC. 3. FINANCIAL SECURITY CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 36B the following new section:

"SEC. 36C. FINANCIAL SECURITY CREDIT.

"(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this subtitle for a taxable year an amount equal to the lesser of—

"(1) $500, or

"(2) 50 percent of the total amount deposited or contributed by the taxpayer in accordance with subsection (b)(1) into designated savings products during such taxable year.

"(b) LIMITATIONS.—

"(1) CREDIT MUST BE DEPOSITED IN OR CONTRIBUTED TO DESIGNATED SAVINGS PRODUCT.—No amount shall be allowed as a credit under subsection (a) for a taxable year unless the taxpayer designates on the taxpayer's return of tax for the taxable year that the amount of the credit for such taxable year be deposited in or contributed to one or more designated savings products of the taxpayer and the Secretary makes such deposits or contributions to the designated savings products.

"(2) LIMITATION BASED ON ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The amount of the credit allowable under subsection (a) shall be reduced (but not below zero) by an amount which bears the same ratio to the amount of such credit (determined without regard to this paragraph) as—

"(i) the amount by which the taxpayer's adjusted gross income exceeds the threshold amount, bears to

"(ii) $15,000.

"(B) THRESHOLD AMOUNT.—For purposes of subparagraph (A), the term 'threshold amount' means—

"(i) $55,500 in the case of a joint return,

"(ii) $41,625 in the case of an individual who is not married, and

"(iii) 50 percent of the dollar amount in effect under clause (i) in the case of a married individual filing a separate return.

For purposes of this subparagraph, marital status shall be determined under section 7703.

"(c) DESIGNATED SAVINGS PRODUCT.—For purposes of this section, the term 'designated savings product' means any of the following:

"(1) A qualified retirement plan (as defined in section 4974(c)).

"(2) A qualified tuition program (as defined in section 529).

"(3) A Coverdell education savings account (as defined in section 530).

"(4) A United States savings bond.

"(5) A certificate of deposit (or similar class of deposit) with a duration of at least 8 months.

"(6) A savings account.

"(7) Any other type of savings product considered to be appropriate by the Secretary for the purposes of this section.

"(d) SPECIAL RULES.—

"(1) TAX REFUNDS TREATED AS DEPOSITED OR CONTRIBUTED IN CURRENT TAXABLE YEAR.— For purposes of subsection (a)(2), the amount of any overpayment of taxes refunded to the taxpayer (reduced by any amount attributable to the credit allowed under this section by reason of being considered as an overpayment by section 6401(b)) and designated for deposit in or contribution to a designated savings product of the taxpayer shall be treated as an amount deposited or contributed in the taxable year in which so deposited or contributed.

"(2) MAINTENANCE OF DEPOSIT.—No contribution or deposit shall be taken into account under subsection (a) unless such contribution or deposit remains in the designated savings product for not less than 8 continuous months.

"(3) REDUCTION IN DEPOSITS IN DESIGNATED SAVINGS PRODUCTS.—

"(A) IN GENERAL.—The amount of deposits or contributions taken into account under subsection (a) shall be reduced (but not below zero) by the aggregate amount of distributions (other than interest from designated savings products specified in paragraphs (4), (5), (6), and (7) of subsection (c)) from all designated savings products of the taxpayer during the testing period. The preceding sentence shall not apply to the portion of any distribution which is not includible in gross income by reason of a trustee-to-trustee transfer or a rollover distribution.

"(B) TESTING PERIOD.—For purposes of subparagraph (A), the testing period, with respect to a taxable year, is the period which includes—

"(i) such taxable year,

"(ii) the 2 preceding taxable years, and

"(iii) the period after such taxable year and before the due date (including extensions) for filing the return of tax for such taxable year.

"(C) OTHER RULES.—Rules similar to subparagraphs (C) and (D) of section 25B(d)(2) shall apply for purposes of this paragraph.

"(4) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under section 25B with respect to any deposit for which a credit is allowed under this section.

"(5) COORDINATION WITH OTHER REFUNDABLE CREDITS.—The credit allowed by subsection (a) shall be taken into account after taking into account the credits allowed by (or treated as allowed by) this subpart (other than this section).

"(e) INFLATION ADJUSTMENTS.—

"(1) CREDIT LIMIT.—In the case of any taxable year beginning in a calendar year after 2016, the dollar amount in subsection (a)(1) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2015' for 'calendar year 1992' in subparagraph (B) thereof.

"(2) AGI THRESHOLDS.—In the case of any taxable year beginning in a calendar year after 2016, each of the dollar amounts in clauses (i) and (ii) of subsection (b)(2)(B) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2015' for 'calendar year 1992' in subparagraph (B) thereof.

"(3) ROUNDING.—

"(A) CREDIT LIMIT.—If any increase under paragraph (1) is not a multiple of $10, such increase shall be rounded to the next lowest multiple of $10.

"(B) AGI THRESHOLDS.—If any increase under paragraph (1) is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.

"(f) REGULATIONS.—Not later than 12 months from date of enactment of this section, the Secretary shall issue such regulations or other guidance as the Secretary determines necessary or appropriate to carry out this section, including regulations or guidance—

"(1) to ensure that designated savings products are subject to appropriate reporting requirements, including the reporting of contributions and other deposits during the calendar year, end of calendar year account balances, and earnings from designated savings products specified in paragraphs (4), (5), (6), and (7) of subsection (c),

"(2) to carry out the maintenance of deposit provisions under subsection (d)(2), and

"(3) to prevent avoidance of the purposes of this subsection.".

(b) CONFORMING AMENDMENTS.—

(1) Section 1324(b)(2) of title 31, United States Code, is amended by inserting "36C," after "36B,".

(2) The table of sections for subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 36C the following new item:

"Sec. 36C. Financial security credit.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2015.

SEC. 4. OPENING OF ACCOUNTS ON FEDERAL INCOME TAX RETURNS TO FACILITATE SAVINGS.

(a) NOTIFICATION OF OPTION.—

(1) IN GENERAL.—The Commissioner of Internal Revenue shall notify individuals who may qualify for a credit under section 36C of the Internal Revenue Code of 1986 but fail to provide sufficient information to allow the Secretary to deposit or contribute the credit amount to a designated savings product that they have the option of an electronic direct deposit and that they may be eligible for the financial security credit under section 36C of such Code if they deposit a refund or a portion of their refund in any designated savings product.

(2) METHOD OF NOTIFICATION.—The notification under paragraph (1) shall be made through—

(A) a public awareness program undertaken by the Secretary of the Treasury, in concert with the Commissioner of Internal Revenue and others as necessary, beginning not later than 6 months after the date of the enactment of this Act;

(B) tax return preparers and low-income taxpayer clinics; and

(C) the inclusion of such a notice in the instruction material for any Federal income tax return.

(b) ESTABLISHMENT OF DESIGNATED ACCOUNT PROGRAM.—The Secretary of the Treasury shall develop, in consultation with the Federal Management System, a program to minimize the delivery of non-electronic Federal income tax refunds by depositing refunds electronically to a safe, low-cost account held by a depository institution. This program shall include—

(1) provisions for such tax refunds to be deposited into a designated account;

(2) establishment of account parameters with respect to minimum balance requirements, limitations on overdrafts, overdraft fees, other fees, and additional requirements;

(3) establishment of means for the taxpayer to access the account electronically and to have timely, direct access to the funds in the account; and

(4) provisions to allow taxpayers to open an account with their Federal income tax refunds through financial service providers, so long such account is held at a depository institution insured under the Federal Deposit Insurance Act or a credit union insured under the Federal Credit Union Act.

(c) EFFECTIVE DATE.—The notification under subsection (a) and the program under subsection (b) shall be effective with respect to Federal income tax returns for taxable years beginning after December 31, 2015.

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