PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

UNIVERSAL SAVINGS ACCOUNTS

Preston Brashers, Research Fellow

TOPLINE: Congress should enact legislation allowing for the creation of flexible Universal Savings Accounts (USAs).

BACKGROUND: The federal tax code discourages individuals from saving and investing outside of specified "tax-advantaged accounts." A worker who invests part of his after-tax paycheck in stocks, bonds, or other assets outside of these accounts faces an additional layer of capital gains taxes on his investment gains that wouldn't apply if the full paycheck were simply spent.

The Internal Revenue Code provides for more than a dozen different types of tax-advantaged accounts, including 457(b) deferred compensation plans, traditional IRAs, Roth IRAs, 401(k)s, 403(b)s, 529 college savings plans, Coverdell Education Savings Accounts, Health Savings Accounts, Trump Accounts, ABLE Accounts, and more. Most of these simply prevent double taxation rather than offering actual tax *advantages*. Moreover, the owners of the various types of accounts face complex rules and limitations on when and how much they can contribute to or distribute from their accounts and for what purposes. Americans likely pay billions of dollars per year in penalties to the IRS for early withdrawals from their own accounts.

Action Items (Congress):

- **Establish USAs that allow individuals to make cash contributions of at least $10,000 per year.**
  - USAs should have Roth treatment, meaning that earnings and distributions from the accounts aren't subject to income tax.
  - Unlike other types of accounts, **distributions from USAs shouldn't be restricted to specific uses, amounts, or times**.

How It Would Make Life More Affordable:

- Establishing USAs would encourage more saving and investment, as people would no longer have to choose between double taxation or restrictions on access to their own money.
- It would improve the functioning of capital markets by increasing the flexibility of capital.
- It would give Americans more ready access to funds when they need them.
- It would reduce the amount of taxes and penalties on savings.

Related Legislation: Universal Savings Account Act (S. 1581, H.R. 3186).

BOTTOMLINE: The federal government shouldn't be in the business of dictating when and how Americans can use their own money.