Middle-class Savings and Investment Act

Background

Under current law, lower-income taxpayers are not subject to tax on capital gains and dividends income if their combined wage and investment taxable income is below $41,676 ($83,351 married). Taxpayers with taxable income at or above that are taxed at either 15% or 20% on most of their savings and investment income. Moreover, taxpayers in these brackets may be subject to an additional 3.8% tax on their net investment income. The Net Investment Tax (NIT) applies to individuals with adjusted gross income (AGI) over $200,000 ($250,000 married) and these income thresholds are not indexed to inflation. Most interest income is taxed at ordinary tax rates, rather than the lower rates for cap gains and dividends, and is taxed from dollar one without any adjustment for inflation.

Proposal

- Expand the current 0 percent tax bracket for capital gains and dividends to align it with the top of current 22 percent tax bracket. For 2022, this means increasing the top of the zero bracket from $41,675 ($83,350 married) to $89,075 ($178,150 married).
- Net Investment Tax (NIT) marriage penalty relief and index NIT to inflation. For 2022, the NIT threshold for married filing jointly would be increased from $250,000 to $400,000 and its income thresholds are indexed to inflation.
- Exclude the first $300 ($600 married) of interest income from tax.
- Enhance and expand Savers Credit by increasing maximum credit amount and expanding its availability to more taxpayers.
- Offset all provisions by extending SALT cap as necessary.

Highlights of Proposal

- *Middle-class tax relief*: Middle-class savers are hit particularly hard by inflation as it erodes savings. For many, current inflation is outpacing any interest earned or gains accrued. However, they are still taxed on that income as if inflation didn't exist. This bill provides targeted tax relief to those hit hardest by inflation, including middle-class savers, retirees relying on retirement savings, small businesses and farmers.
- *Non-inflationary*: This proposal won't stoke more inflation like many Democratic proposals, such as providing gas tax rebates. Record high consumer demand is driving up prices and worsening inflation. By encouraging savings, the proposal may actually help reduce inflation by dampening consumer demand.
- *Pro-growth*: Proposal reduces taxes on capital encouraging more business investment, which is necessary to increase productivity. Democrats have proposed raising taxes on businesses. Such tax hikes would discourage investment thereby reducing productivity at a time when we need more production—not less—to combat unchecked inflation.

Section-by-Section

Section 2: Expansion of Capital Gains/Dividends Zero Rate Bracket

This provision more than doubles the size of the zero percent tax bracket for long-term capital gains and qualified dividends. Under present law, taxpayers with taxable incomes up to $41,675 ($83,350 married) are subject to a zero tax rate on their long-term capital gains and qualified dividends income. Under this provision, the zero bracket in 2022 is expanded to include taxpayers with total income up to $89,075 ($178,150 married) aligning the zero rate with the top of the 22% income tax bracket. These thresholds are adjusted for inflation in future years.

Section 3: Interest Exclusion

This provision would allow taxpayers to earn a reasonable amount of interest income tax free. Under present law, most types of interest income are considered ordinary income and subject to individual income tax rates from $1. This provision allows individuals to exclude up to $300 ($600 married) of interest from income and thus is not subject to tax.

Section 4: Net Investment Tax (NIT) Inflation and Marriage Penalty Relief

This provision eliminates the current marriage penalty in the NIT and indexes its income threshold to inflation. Under present law, taxpayers with income of $200,000 ($250,000 married) are subject to an additional 3.8% on their investment income, including capital gains, dividends, and interest income. These income thresholds have never been adjusted since this tax was enacted in 2009 as part of Obamacare resulting in gradually more and more taxpayers owing the tax. This provision indexes the NIT's income thresholds to inflation and eliminates its current marriage penalty by raising the threshold for married taxpayers to $400,000, twice the amount of the threshold for singles.

Section 5: Enhancement and Expansion of Savers Credit

This provision increases the maximum credit amount an individual may receive for contributing to a qualified retirement account and expands the availability of the credit to more taxpayers. Under present law, the Savers Credit provides a credit equal to 50% of the amount contributed by an individual to a qualified retirement account. The maximum contribution to which the credit applies is $2,000 ($4,000 married) for a maximum credit amount of $1,000 for singles and head of households and $2,000 for married filers. For 2022, the 50% credit is limited to taxpayers with incomes at or below $20,500 single, $30,750 for head of households, or $41,000 married. Taxpayers above these thresholds may qualify for 20% or 10% credit, but no credit is available to taxpayers with incomes over $34,000 single, $51,000 head of household, or $68,000 married.

This provision increases the maximum contribution amount to which the credit applies to $2,500 for singles and heads of households, and increases it to $5,000 for married filing jointly. As a result, the maximum 50% credit is increased from $1,000 to $1,250 for singles and heads of households, and from $2,000 to $2,500 for married filers. Moreover, the income thresholds for the full 50% credit are increased to $45,000 married, $33,750 head of household, and $22,500 single. Furthermore, the credit is modified to more gradually phase out and is completely phased out for taxpayers with incomes exceeding $85,000 married, $63,750 head of household and $42,500 single. These income thresholds are indexed to inflation.

Section 6: Extend State and Local Tax Deduction Cap

This provision extends the current law cap on the state and local tax (SALT) deduction to pay for the inflation relief provided in the above provisions. Under current law, a taxpayer may deduct up to $10,000 of any state and local taxes paid. The current SALT cap is scheduled to expire after 2025, which would allow for an unlimited SALT deduction the benefit of which would primarily accrue to wealthy taxpayers. This provision extends the current SALT cap for three years, which is expected offset the cost of the above provisions.