

MEMO# 1689

January 31, 1990

ADMINISTRATION'S "SAVINGS AND ECONOMIC GROWTH ACT"

January 30, 1990 TO: BOARD OF GOVERNORS NO. 7-90 FEDERAL LEGISLATION MEMBERS
NO. 2-90 RE: ADMINISTRATION'S "SAVINGS AND ECONOMIC GROWTH ACT"

Late today, Treasury Secretary Nicholas Brady announced the details of the Administration's "savings and investment" legislative proposal. Called the "Savings and Economic Growth Act", the proposal contains three elements: **FAMILY SAVINGS ACCOUNT** Taxpayers can make non-deductible contributions of up to \$5000 (\$2500 for each spouse) or \$2500 for single taxpayers. Contributions would be permitted for single filers with adjusted gross income (AGI) of less than \$60,000, for heads of households with AGI less than \$100,000, and for married taxpayers filing joint returns with AGI less than \$120,000. All earnings accumulate tax-free and can be withdrawn tax-free after seven years. Various penalties apply for early withdrawals. Qualified investments would be the same as for IRAs. Contributions can be made in addition to IRAs, 401(k)s, qualified pension plans and other similar plans. **CAPITAL GAINS TAX RATE REDUCTION** Gains from all capital assets held by individuals (other than collectibles) would qualify for an exclusion of 30% if held for more than three years, 20% if held for more than two years and 10% if held for more than one year. - 2 - **HOME OWNERSHIP INITIATIVE - IRA EARLY WITHDRAWAL** The Home Ownership Initiative waives the 10% excise tax penalty for IRA early withdrawals if the money is used to purchase a home that costs no more than 110% of the median price of homes. The maximum amount that may be withdrawn is \$10,000. A copy of Secretary Brady's statement and a detailed description of the proposal are attached. We will keep you informed as this matter develops. Should you require further information, please call at (202) 955-3544. Julie Domenick Doerr Vice President-Legislative Affairs