

105TH CONGRESS
1ST SESSION

H. R. 1266

To amend the Internal Revenue Code of 1986 to index the basis of certain assets for purposes of determining gain, to provide for the establishment of American Dream Savings Accounts, and to repeal the increase enacted in 1993 in taxes on Social Security benefits.

IN THE HOUSE OF REPRESENTATIVES

APRIL 9, 1997

Mr. STEARNS introduced the following bill; which was referred to the
Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to index the basis of certain assets for purposes of determining gain, to provide for the establishment of American Dream Savings Accounts, and to repeal the increase enacted in 1993 in taxes on Social Security benefits.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. THIS ACT MAY BE CITED AS THE “BUDGET NEU-**
2 **TRAL AMERICAN TAX RELIEF ACT”.**

3 **SEC. 2. INDEXING OF CERTAIN ASSETS ACQUIRED AFTER**
4 **DECEMBER 31, 1996, FOR PURPOSES OF DE-**
5 **TERMINING GAIN.**

6 (a) IN GENERAL.—Part II of subchapter O of chap-
7 ter 1 of the Internal Revenue Code of 1986 (relating to
8 basis rules of general application) is amended by inserting
9 after section 1021 the following new section:

10 **“SEC. 1022. INDEXING OF CERTAIN ASSETS ACQUIRED**
11 **AFTER DECEMBER 31, 1996, FOR PURPOSES**
12 **OF DETERMINING GAIN.**

13 “(a) GENERAL RULE.—

14 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
15 JUSTED BASIS.—Solely for purposes of determining
16 gain on the sale or other disposition by a taxpayer
17 (other than a corporation) of an indexed asset which
18 has been held for more than 3 years, the indexed
19 basis of the asset shall be substituted for its ad-
20 justed basis.

21 “(2) EXCEPTION FOR DEPRECIATION, ETC.—

22 The deductions for depreciation, depletion, and am-
23 ortization shall be determined without regard to the
24 application of paragraph (1) to the taxpayer or any
25 other person.

26 “(b) INDEXED ASSET.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the term ‘indexed asset’ means—

3 “(A) common stock in a C corporation
4 (other than a foreign corporation), and

5 “(B) tangible property,
6 which is a capital asset or property used in the trade
7 or business (as defined in section 1231(b)).

8 “(2) STOCK IN CERTAIN FOREIGN CORPORA-
9 TIONS INCLUDED.—For purposes of this section—

10 “(A) IN GENERAL.—The term ‘indexed
11 asset’ includes common stock in a foreign cor-
12 poration which is regularly traded on an estab-
13 lished securities market.

14 “(B) EXCEPTION.—Subparagraph (A)
15 shall not apply to—

16 “(i) stock of a foreign investment
17 company (within the meaning of section
18 1246(b)),

19 “(ii) stock in a passive foreign invest-
20 ment company (as defined in section
21 1296),

22 “(iii) stock in a foreign corporation
23 held by a United States person who meets
24 the requirements of section 1248(a)(2),
25 and

1 “(iv) stock in a foreign personal hold-
2 ing company (as defined in section 552).

3 “(C) TREATMENT OF AMERICAN DEPOSI-
4 TORY RECEIPTS.—An American depository re-
5 ceipt for common stock in a foreign corporation
6 shall be treated as common stock in such cor-
7 poration.

8 “(c) INDEXED BASIS.—For purposes of this sec-
9 tion—

10 “(1) GENERAL RULE.—The indexed basis for
11 any asset is—

12 “(A) the adjusted basis of the asset, in-
13 creased by

14 “(B) the applicable inflation adjustment.

15 “(2) APPLICABLE INFLATION ADJUSTMENT.—
16 The applicable inflation adjustment for any asset is
17 an amount equal to—

18 “(A) the adjusted basis of the asset, multi-
19 plied by

20 “(B) the percentage (if any) by which—

21 “(i) the gross domestic product
22 deflator for the last calendar quarter end-
23 ing before the asset is disposed of, exceeds

24 “(ii) the gross domestic product
25 deflator for the last calendar quarter end-

1 ing before the asset was acquired by the
2 taxpayer.

3 The percentage under subparagraph (B) shall be
4 rounded to the nearest one-tenth of 1 percentage
5 point.

6 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

7 The gross domestic product deflator for any cal-
8 endar quarter is the implicit price deflator for the
9 gross domestic product for such quarter (as shown
10 in the last revision thereof released by the Secretary
11 of Commerce before the close of the following cal-
12 endar quarter).

13 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-
14 MINISHED RISK OF LOSS; TREATMENT OF SHORT
15 SALES.—

16 “(1) IN GENERAL.—If the taxpayer (or a relat-
17 ed person) enters into any transaction which sub-
18 stantially reduces the risk of loss from holding any
19 asset, such asset shall not be treated as an indexed
20 asset for the period of such reduced risk.

21 “(2) SHORT SALES.—

22 “(A) IN GENERAL.—In the case of a short
23 sale of an indexed asset with a short sale period
24 in excess of 3 years, for purposes of this title,
25 the amount realized shall be an amount equal

to the amount realized (determined without regard to this paragraph) increased by the applicable inflation adjustment. In applying subsection (c)(2) for purposes of the preceding sentence, the date on which the property is sold short shall be treated as the date of acquisition and the closing date for the sale shall be treated as the date of disposition.

“(B) SHORT SALE PERIOD.—For purposes of subparagraph (A), the short sale period begins on the day that the property is sold and ends on the closing date for the sale.

“(e) TREATMENT OF REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

“(1) ADJUSTMENTS AT ENTITY LEVEL.—

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, the adjustment under subsection (a) shall be allowed to any qualified investment entity (including for purposes of determining the earnings and profits of such entity).

“(B) EXCEPTION FOR CORPORATE SHAREHOLDERS.—Under regulations—

1 “(i) in the case of a distribution by a
2 qualified investment entity (directly or in-
3 directly) to a corporation—

4 “(I) the determination of whether
5 such distribution is a dividend shall be
6 made without regard to this section,
7 and

8 “(II) the amount treated as gain
9 by reason of the receipt of any capital
10 gain dividend shall be increased by the
11 percentage by which the entity’s net
12 capital gain for the taxable year (de-
13 termined without regard to this sec-
14 tion) exceeds the entity’s net capital
15 gain for such year determined with re-
16 gard to this section, and

17 “(ii) there shall be other appropriate
18 adjustments (including deemed distribu-
19 tions) so as to ensure that the benefits of
20 this section are not allowed (directly or in-
21 directly) to corporate shareholders of quali-
22 fied investment entities.

23 For purposes of the preceding sentence, any
24 amount includable in gross income under sec-
25 tion 852(b)(3)(D) shall be treated as a capital

1 gain dividend and an S corporation shall not be
2 treated as a corporation.

3 “(C) EXCEPTION FOR QUALIFICATION
4 PURPOSES.—This section shall not apply for
5 purposes of sections 851(b) and 856(e).

6 “(D) EXCEPTION FOR CERTAIN TAXES IM-
7 POSED AT ENTITY LEVEL.—

8 “(i) TAX ON FAILURE TO DISTRIBUTE
9 ENTIRE GAIN.—If any amount is subject to
10 tax under section 852(b)(3)(A) for any
11 taxable year, the amount on which tax is
12 imposed under such section shall be in-
13 creased by the percentage determined
14 under subparagraph (B)(i)(II). A similar
15 rule shall apply in the case of any amount
16 subject to tax under paragraph (2) or (3)
17 of section 857(b) to the extent attributable
18 to the excess of the net capital gain over
19 the deduction for dividends paid deter-
20 mined with reference to capital gain divi-
21 dends only. The first sentence of this
22 clause shall not apply to so much of the
23 amount subject to tax under section
24 852(b)(3)(A) as is designated by the com-
25 pany under section 852(b)(3)(D).

1 “(ii) OTHER TAXES.—This section
2 shall not apply for purposes of determining
3 the amount of any tax imposed by para-
4 graph (4), (5), or (6) of section 857(b).

5 “(2) ADJUSTMENTS TO INTERESTS HELD IN
6 ENTITY.—

7 “(A) REGULATED INVESTMENT COMPA-
8 NIES.—Stock in a regulated investment com-
9 pany (within the meaning of section 851) shall
10 be an indexed asset for any calendar quarter in
11 the same ratio as—

12 “(i) the average of the fair market
13 values of the indexed assets held by such
14 company at the close of each month during
15 such quarter, bears to

16 “(ii) the average of the fair market
17 values of all assets held by such company
18 at the close of each such month.

19 “(B) REAL ESTATE INVESTMENT
20 TRUSTS.—Stock in a real estate investment
21 trust (within the meaning of section 856) shall
22 be an indexed asset for any calendar quarter in
23 the same ratio as—

1 “(i) the fair market value of the in-
2 dexed assets held by such trust at the close
3 of such quarter, bears to

4 “(ii) the fair market value of all as-
5 sets held by such trust at the close of such
6 quarter.

7 “(C) RATIO OF 80 PERCENT OR MORE.—If
8 the ratio for any calendar quarter determined
9 under subparagraph (A) or (B) would (but for
10 this subparagraph) be 80 percent or more, such
11 ratio for such quarter shall be 100 percent.

12 “(D) RATIO OF 20 PERCENT OR LESS.—If
13 the ratio for any calendar quarter determined
14 under subparagraph (A) or (B) would (but for
15 this subparagraph) be 20 percent or less, such
16 ratio for such quarter shall be zero.

17 “(E) LOOK-THRU OF PARTNERSHIPS.—For
18 purposes of this paragraph, a qualified invest-
19 ment entity which holds a partnership interest
20 shall be treated (in lieu of holding a partnership
21 interest) as holding its proportionate share of
22 the assets held by the partnership.

23 “(3) TREATMENT OF RETURN OF CAPITAL DIS-
24 TRIBUTIONS.—Except as otherwise provided by the
25 Secretary, a distribution with respect to stock in a

1 qualified investment entity which is not a dividend
2 and which results in a reduction in the adjusted
3 basis of such stock shall not be treated as allocable
4 to stock acquired by the taxpayer in the order in
5 which such stock was acquired.

6 “(4) QUALIFIED INVESTMENT ENTITY.—For
7 purposes of this subsection, the term ‘qualified in-
8 vestment entity’ means—

9 “(A) a regulated investment company
10 (within the meaning of section 851), and

11 “(B) a real estate investment trust (within
12 the meaning of section 856).

13 “(f) OTHER PASS-THRU ENTITIES.—

14 “(1) PARTNERSHIPS.—

15 “(A) IN GENERAL.—In the case of a part-
16 nership, the adjustment made under subsection
17 (a) at the partnership level shall be passed
18 through to the partners.

19 “(B) SPECIAL RULE IN THE CASE OF SEC-
20 TION 754 ELECTIONS.—In the case of a transfer
21 of an interest in a partnership with respect to
22 which the election provided in section 754 is in
23 effect—

24 “(i) the adjustment under section
25 743(b)(1) shall, with respect to the trans-

1 feror partner, be treated as a sale of the
2 partnership assets for purposes of applying
3 this section, and

4 “(ii) with respect to the transferee
5 partner, the partnership’s holding period
6 for purposes of this section in such assets
7 shall be treated as beginning on the date
8 of such adjustment.

9 “(2) S CORPORATIONS.—In the case of an S
10 corporation, the adjustment made under subsection
11 (a) at the corporate level shall be passed through to
12 the shareholders. This section shall not apply for
13 purposes of determining the amount of any tax im-
14 posed by section 1374 or 1375.

15 “(3) COMMON TRUST FUNDS.—In the case of a
16 common trust fund, the adjustment made under sub-
17 section (a) at the trust level shall be passed through
18 to the participants.

19 “(4) INDEXING ADJUSTMENT DISREGARDED IN
20 DETERMINING LOSS ON SALE OF INTEREST IN EN-
21 TITY.—Notwithstanding the preceding provisions of
22 this subsection, for purposes of determining the
23 amount of any loss on a sale or exchange of an in-
24 terest in a partnership, S corporation, or common
25 trust fund, the adjustment made under subsection

1 (a) shall not be taken into account in determining
2 the adjusted basis of such interest.

3 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

4 “(1) IN GENERAL.—This section shall not apply
5 to any sale or other disposition of property between
6 related persons except to the extent that the basis
7 of such property in the hands of the transferee is a
8 substituted basis.

9 “(2) RELATED PERSONS DEFINED.—For pur-
10 poses of this section, the term ‘related persons’
11 means—

12 “(A) persons bearing a relationship set
13 forth in section 267(b), and

14 “(B) persons treated as single employer
15 under subsection (b) or (c) of section 414.

16 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
17 MENT.—If any person transfers cash, debt, or any other
18 property to another person and the principal purpose of
19 such transfer is to secure or increase an adjustment under
20 subsection (a), the Secretary may disallow part or all of
21 such adjustment or increase.

22 “(i) SPECIAL RULES.—For purposes of this section—

23 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If
24 there is an addition to the adjusted basis of any tan-
25 gible property or of any stock in a corporation dur-

1 ing the taxable year by reason of an improvement to
2 such property or a contribution to capital of such
3 corporation—

4 “(A) such addition shall never be taken
5 into account under subsection (c)(1)(A) if the
6 aggregate amount thereof during the taxable
7 year with respect to such property or stock is
8 less than \$1,000, and

9 “(B) such addition shall be treated as a
10 separate asset acquired at the close of such tax-
11 able year if the aggregate amount thereof dur-
12 ing the taxable year with respect to such prop-
13 erty or stock is \$1,000 or more.

14 A rule similar to the rule of the preceding sentence
15 shall apply to any other portion of an asset to the
16 extent that separate treatment of such portion is ap-
17 propriate to carry out the purposes of this section.

18 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
19 THROUGHOUT HOLDING PERIOD.—The applicable in-
20 flation adjustment shall be appropriately reduced for
21 periods during which the asset was not an indexed
22 asset.

23 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
24

1 corporation which is not a dividend shall be treated
2 as a disposition.

3 “(4) ACQUISITION DATE WHERE THERE HAS
4 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
5 WITH RESPECT TO THE TAXPAYER.—If there has
6 been a prior application of subsection (a)(1) to an
7 asset while such asset was held by the taxpayer, the
8 date of acquisition of such asset by the taxpayer
9 shall be treated as not earlier than the date of the
10 most recent such prior application.

11 “(5) COLLAPSIBLE CORPORATIONS.—The appli-
12 cation of section 341(a) (relating to collapsible cor-
13 porations) shall be determined without regard to this
14 section.

15 “(j) REGULATIONS.—The Secretary shall prescribe
16 such regulations as may be necessary or appropriate to
17 carry out the purposes of this section.”

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for part II of subchapter O of chapter 1 of such Code
20 is amended by inserting after the item relating to section
21 1021 the following new item:

“Sec. 1022. Indexing of certain assets acquired after December
31, 1996, for purposes of determining gain.”

22 (c) EFFECTIVE DATE.—

23 (1) IN GENERAL.—The amendments made by
24 this section shall apply to the disposition of any

1 property the holding period of which begins after
2 December 31, 1996.

3 (2) CERTAIN TRANSACTIONS BETWEEN RELAT-
4 ED PERSONS.—The amendments made by this sec-
5 tion shall not apply to the disposition of any prop-
6 erty acquired after December 31, 1996, from a re-
7 lated person (as defined in section 1022(g)(2) of the
8 Internal Revenue Code of 1986, as added by this
9 section) if—

10 (A) such property was so acquired for a
11 price less than the property's fair market value,
12 and

13 (B) the amendments made by this section
14 did not apply to such property in the hands of
15 such related person.

16 (d) ELECTION TO RECOGNIZE GAIN ON ASSETS
17 HELD ON JANUARY 1, 1997.—For purposes of the Inter-
18 nal Revenue Code of 1986—

19 (1) IN GENERAL.—A taxpayer other than a cor-
20 poration may elect to treat—

21 (A) any readily tradable stock (which is an
22 indexed asset) held by such taxpayer on Janu-
23 ary 1, 1997, and not sold before the next busi-
24 ness day after such date, as having been sold
25 on such next business day for an amount equal

1 to its closing market price on such next busi-
2 ness day (and as having been reacquired on
3 such next business day for an amount equal to
4 such closing market price), and

5 (B) any other indexed asset held by the
6 taxpayer on January 1, 1997, as having been
7 sold on such date for an amount equal to its
8 fair market value on such date (and as having
9 been reacquired on such date for an amount
10 equal to such fair market value).

11 (2) TREATMENT OF GAIN OR LOSS.—

12 (A) Any gain resulting from an election
13 under paragraph (1) shall be treated as received
14 or accrued on the date the asset is treated as
15 sold under paragraph (1) and shall be recog-
16 nized notwithstanding any provision of the In-
17 ternal Revenue Code of 1986.

18 (B) Any loss resulting from an election
19 under paragraph (1) shall not be allowed for
20 any taxable year.

21 (3) ELECTION.—An election under paragraph
22 (1) shall be made in such manner as the Secretary
23 of the Treasury or his delegate may prescribe and
24 shall specify the assets for which such election is

1 made. Such an election, once made with respect to
2 any asset, shall be irrevocable.

3 (4) READILY TRADABLE STOCK.—For purposes
4 of this subsection, the term “readily tradable stock”
5 means any stock which, as of January 1, 1997, is
6 readily tradable on an established securities market
7 or otherwise.

8 (e) TREATMENT OF PRINCIPAL RESIDENCES.—Prop-
9 erty held and used by the taxpayer on January 1, 1997,
10 as his principal residence (within the meaning of section
11 1034 of the Internal Revenue Code of 1986) shall be treat-
12 ed—

13 (1) for purposes of subsection (c)(1) of this sec-
14 tion and section 1022 of such Code, as having a
15 holding period which begins on January 1, 1997,
16 and

17 (2) for purposes of section 1022(c)(2)(B)(ii) of
18 such Code, as having been acquired on January 1,
19 1996.

20 Subsection (d) shall not apply to property to which this
21 subsection applies.

22 **SEC. 3. ESTABLISHMENT OF AMERICAN DREAM SAVINGS**
23 **ACCOUNTS.**

24 (a) IN GENERAL.—Subpart A of part I of subchapter
25 D of chapter 1 of the Internal Revenue Code of 1986 (re-

1 lating to pension, profit-sharing, stock bonus plans, etc.)
2 is amended by inserting after section 408 the following
3 new section:

4 **“SEC. 408A. AMERICAN DREAM SAVINGS ACCOUNTS.**

5 “(a) GENERAL RULE.—Except as provided in this
6 section, an American Dream Savings Account shall be
7 treated for purposes of this title in the same manner as
8 an individual retirement plan.

9 “(b) AMERICAN DREAM SAVINGS ACCOUNT.—For
10 purposes of this title, the term ‘American Dream Savings
11 Account’ or ‘ADS account’ means an individual retirement
12 plan which is designated at the time of the establishment
13 of the plan as an American Dream Savings Account. Such
14 designation shall be made in such manner as the Secretary
15 may prescribe.

16 “(c) CONTRIBUTION RULES.—

17 “(1) NO DEDUCTION ALLOWED.—No deduction
18 shall be allowed under section 219 for a contribution
19 to an ADS account.

20 “(2) CONTRIBUTION LIMIT.—

21 “(A) IN GENERAL.—The aggregate
22 amount of contributions (other than rollover
23 contributions) for any taxable year to all ADS
24 accounts maintained for the benefit of an indi-
25 vidual shall not exceed the lesser of—

1 “(i) \$2,000, or

2 “(ii) an amount equal to the com-
3 pensation includible in the individual’s
4 gross income for such taxable year.

5 “(B) \$4,000 LIMITATION FOR CERTAIN AD-
6 DITIONAL MARRIED INDIVIDUALS.—

7 “(i) IN GENERAL.—In the case of an
8 individual to whom this subparagraph ap-
9 plies for the taxable year, the limitation of
10 subparagraph (A)(ii) shall be equal to the
11 sum of—

12 “(I) the compensation includible
13 in such individual’s gross income for
14 the taxable year, plus

15 “(II) the compensation includible
16 in the gross income of such individ-
17 ual’s spouse for the taxable year re-
18 duced by the amount of the limitation
19 under subparagraph (A) applicable to
20 such spouse for such taxable year.

21 “(II) INDIVIDUALS TO WHOM CLAUSE
22 (i) APPLIES.—Clause (i) shall apply to any
23 individual if—

24 “(I) such individual files a joint
25 return for the taxable year, and

1 “(II) the amount of compensa-
2 tion (if any) includible in such individ-
3 ual’s gross income for the taxable year
4 is less than the compensation includ-
5 ible in the gross income of such indi-
6 vidual’s spouse for the taxable year.

7 “(C) ADJUSTMENT FOR INFLATION.—

8 “(i) IN GENERAL.—In the case of a
9 taxable year beginning in a calendar year
10 after 1998, the \$2,000 amount contained
11 in subparagraph (A) shall be increased by
12 an amount equal to—

13 “(I) such dollar amount, multi-
14 plied by

15 “(II) the cost-of-living adjust-
16 ment under section 1(f)(3) for the cal-
17 endar year in which the taxable year
18 begins, determined by substituting
19 ‘calendar year 1996’ for ‘calendar
20 year 1992’ in subparagraph (B) there-
21 of.

22 “(ii) ROUNDING.—If any amount as
23 adjusted under clause (i) is not a multiple
24 of \$50, such amount shall be rounded to
25 the nearest multiple of \$50.

1 “(D) TAX ON EXCESS CONTRIBUTIONS.—

2 Section 4973 shall be applied separately with
3 respect to individual retirement plans which are
4 ADS accounts and individual retirement plans
5 which are not ADS accounts; except that, for
6 purposes of applying such section with respect
7 to individual retirement plans which are ADS
8 accounts, excess contributions shall be consid-
9 ered to be any amounts in excess of the limita-
10 tion under subsection (c)(2)(A).

11 “(3) CONTRIBUTIONS PERMITTED AFTER AGE
12 70½.—Contributions to an ADS account may be
13 made even after the individual for whom the account
14 is maintained has attained age 70½.

15 “(4) MANDATORY DISTRIBUTION RULES NOT
16 TO APPLY, ETC.—

17 “(A) IN GENERAL.—Except as provided in
18 subparagraph (B), subsections (a)(6) and (b)(3)
19 of section 408 (relating to required distribu-
20 tions) and section 4974 (relating to excise tax
21 on certain accumulations in qualified retirement
22 plans) shall not apply to any ADS account.

23 “(B) POST-DEATH DISTRIBUTIONS.—Rules
24 similar to the rules of section 401(a)(9) (other

1 than subparagraph (A) thereof) shall apply for
2 purposes of this section.

3 “(5) LIMITATIONS ON ROLLOVER CONTRIBU-
4 TIONS.—No rollover contribution may be made to an
5 ADS account unless—

6 “(A) such contribution is from another
7 ADS account, or

8 “(B) such contribution is from an individ-
9 ual retirement plan (other than an ADS ac-
10 count) and is made before January 1, 1998.

11 “(d) DISTRIBUTION RULES.—For purposes of this
12 title—

13 “(1) GENERAL RULES.—

14 “(A) EXCLUSION FROM GROSS INCOME.—
15 No portion of a qualified distribution from an
16 ADS account shall be includible in gross in-
17 come.

18 “(B) EXCEPTION FROM PENALTY TAX.—
19 Section 72(t) shall not apply to—

20 “(i) any qualified distribution from an
21 ADS account, and

22 “(ii) any qualified special purpose dis-
23 tribution (whether or not a qualified dis-
24 tribution) from an ADS account.

1 “(2) QUALIFIED DISTRIBUTION.—For purposes
2 of this subsection—

3 “(A) IN GENERAL.—The term ‘qualified
4 distribution’ means any payment or distribu-
5 tion—

6 “(i) made on or after the date on
7 which the individual attains age 59½,

8 “(ii) made to a beneficiary (or to the
9 estate of the individual) on or after the
10 death of the individual,

11 “(iii) attributable to the individual’s
12 being disabled (within the meaning of sec-
13 tion 72(m)(7)), or

14 “(iv) which is a qualified special pur-
15 pose distribution.

16 “(B) DISTRIBUTIONS WITHIN 5 YEARS.—
17 No payment or distribution shall be treated as
18 a qualified distribution if—

19 “(i) it is made within the 5-taxable
20 year period beginning with the 1st taxable
21 year for which the individual made a con-
22 tribution to an ADS account (or such indi-
23 vidual’s spouse made a contribution to an
24 ADS account) established for such individ-
25 ual, or

1 “(ii) in the case of a payment or dis-
2 tribution properly allocable to a rollover
3 contribution (or income allocable thereto),
4 it is made within 5 years after the date on
5 which such rollover contribution was made,
6 as determined under regulations prescribed
7 by the Secretary.

8 Clause (ii) shall not apply to a rollover con-
9 tribution from an ADS account.

10 “(3) INCOME INCLUSION FOR ROLLOVERS FROM
11 NON-ADS ACCOUNTS.—In the case of any amount
12 paid or distributed out of an individual retirement
13 plan (other than an ADS account) which is paid into
14 an ADS account (established for the benefit of the
15 payee or distributee, as the case may be) before the
16 close of the 60th day after the day on which the
17 payment or distribution is received—

18 “(A) sections 72(t) and 408(d)(3) shall not
19 apply, and

20 “(B) any amount required to be included
21 in gross income by reason of this paragraph
22 shall be so included ratably over the 4-taxable
23 year period beginning with the taxable year in
24 which the payment or distribution is made.

1 “(e) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—

2 “(1) IN GENERAL.—For purposes of this section, the term ‘qualified special purpose distribution’ means any payments or distributions from an ADS account to the individual for whose benefit such account is established—

3 “(A) if such payments or distributions are qualified first-time homebuyer distributions, or

4 “(B) to the extent such payments or distributions do not exceed—

5 “(i) the qualified higher education expenses of the taxpayer for the taxable year in which received, and

6 “(ii) the qualified medical expenses of the taxpayer for the taxable year in which received.

7 “(2) QUALIFIED FIRST-TIME HOMEBUYER DISTRIBUTIONS.—

8 “(A) IN GENERAL.—For purposes of this subsection, the term ‘qualified first-time homebuyer distribution’ means any payment or distribution received by an individual to the extent such payment or distribution is used by the individual before the close of the 60th day after

1 the day on which such payment or distribution
2 is received to pay qualified acquisition costs
3 with respect to a principal residence for such
4 individual as a first-time homebuyer.

5 “(B) QUALIFIED ACQUISITION COSTS.—

6 For purposes of this paragraph, the term
7 ‘qualified acquisition costs’ means the costs of
8 acquiring, constructing, or reconstructing a res-
9 idence. Such term includes any usual or reason-
10 able settlement, financing, or other closing
11 costs.

12 “(C) FIRST-TIME HOMEBUYER; OTHER

13 DEFINITIONS.—For purposes of this para-
14 graph—

15 “(i) FIRST-TIME HOMEBUYER.—The

16 term ‘first-time homebuyer’ means any in-
17 dividual if such individual (and, if married,
18 such individual’s spouse) had no present
19 ownership interest in a principal residence
20 during the 3-year period ending on the
21 date of acquisition of the principal resi-
22 dence to which this paragraph applies.

23 “(ii) PRINCIPAL RESIDENCE.—The

24 term ‘principal residence’ has the same
25 meaning as when used in section 1034.

1 “(iii) DATE OF ACQUISITION.—The
2 term ‘date of acquisition’ means the date—

3 “(I) on which a binding contract
4 to acquire the principal residence to
5 which subparagraph (A) applies is en-
6 tered into, or

7 “(II) on which a binding contract
8 to construct or reconstruct such a
9 principal residence is entered into.

10 “(D) SPECIAL RULE WHERE DELAY IN AC-
11 QUISTION.—If any payment or distribution out
12 of an ADS account fails to meet the require-
13 ments of subparagraph (A) solely by reason of
14 a delay or cancellation of the purchase, con-
15 struction, or reconstruction of the residence, the
16 amount of the payment or distribution may be
17 contributed to an ADS account as provided in
18 subsection (d)(3)(A)(i) of section 408 (deter-
19 mined by substituting ‘120th day’ for ‘60th
20 day’ in such subsection), except that—

21 “(i) subsection (d)(3)(B) of such sec-
22 tion shall not be applied to such contribu-
23 tion, and

24 “(ii) such amount shall not be taken
25 into account in determining whether sub-

1 section (d)(3)(A)(i) of such section applies
2 to any other amount.

3 “(3) QUALIFIED HIGHER EDUCATION EX-
4 PENSES.—For purposes of this subsection—

5 “(A) IN GENERAL.—The term ‘qualified
6 higher education expenses’ means tuition, fees,
7 books, supplies, and equipment required for the
8 enrollment or attendance of—

9 “(i) the taxpayer,

10 “(ii) the taxpayer’s spouse, or

11 “(iii) the taxpayer’s child (as defined
12 in section 151(c)(3)) or grandchild,
13 at an eligible educational institution (as defined
14 in section 135(c)(3)).

15 “(B) COORDINATION WITH SAVINGS BOND
16 PROVISIONS.—The amount of qualified higher
17 education expenses for any taxable year shall be
18 reduced by any amount excludable from gross
19 income under section 135.

20 “(4) QUALIFIED MEDICAL EXPENSES.—

21 “(A) IN GENERAL.—For purposes of this
22 subsection, the term ‘qualified medical ex-
23 penses’ means any amounts paid during the
24 taxable year, not compensated for by insurance
25 or otherwise, for medical care (as defined in

1 section 213(d)) of the taxpayer, his spouse, or
 2 a dependent (as defined in section 152).

3 “(B) LONG-TERM CARE INSURANCE PRE-
 4 MIUMS TREATED AS MEDICAL EXPENSES.—For
 5 purposes of subparagraph (A), the term ‘quali-
 6 fied medical expenses’ shall include premiums
 7 for long-term care insurance for coverage of the
 8 taxpayer or his spouse.

9 “(f) OTHER DEFINITIONS.—For purposes of this sec-
 10 tion—

11 “(1) ROLLOVER CONTRIBUTIONS.—The term
 12 ‘rollover contributions’ means contributions de-
 13 scribed in sections 402(c), 403(a)(4), 403(b)(8), or
 14 408(d)(3).

15 “(2) COMPENSATION.—The term ‘compensa-
 16 tion’ has the meaning given such term by section
 17 219(f).”

18 (b) TERMINATION OF NONDEDUCTIBLE IRA CON-
 19 TRIBUTIONS.—

20 (1) Section 408(o) of such Code is amended by
 21 adding at the end the following new paragraph:

22 “(5) TERMINATION.—This subsection shall not
 23 apply to any designated nondeductible contribution
 24 for any taxable year beginning after December 31,
 25 1996.”

(d) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter D of chapter 1 of such Code is amended by inserting after the item relating to section 408 the following new item:

(e) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1997.

(a) IN GENERAL.—Subsection (a) of section 86 of the Internal Revenue Code of 1986 (relating to Social Security and tier 1 railroad retirement benefits) is amended by adding at the end the following new paragraph:

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“In the case of a taxable year beginning in calendar year:	The percentage is:
1998	75 percent
1999	65 percent
2000	60 percent
2001	55 percent.”

1 (b) TERMINATION OF ADDITIONAL AMOUNT.—Para-
2 graph (2) of section 86(a) of such Code is amended by
3 adding at the end the following new flush sentence:

4 “This paragraph shall not apply to any taxable year
5 beginning after December 31, 2001.”

6 (c) CONFORMING AMENDMENTS.—

7 (1) Paragraph (3) of section 871(a) of such
8 Code is amended—

9 (A) by striking “85 percent” in subpara-
10 graph (A) and inserting “50 percent”, and

11 (B) by inserting before the last sentence
12 the following new flush sentence:

13 “In the case of any taxable year beginning in a cal-
14 endar year after 1997 and before 2002, subpara-
15 graph (A) shall be applied by substituting the per-
16 centage determined for such calendar year under
17 section 86(a)(3) for ‘50 percent’.”

18 (2)(A) Subparagraph (A) of section 121(e)(1)
19 of the Social Security Amendments of 1983 (Public
20 Law 98–21) is amended—

21 (i) by striking “(A) There” and inserting
22 “There”;

1 (ii) by striking “(i)” immediately following
 2 “amounts equivalent to”; and

3 (iii) by striking “, less (ii)” and all that
 4 follows and inserting a period.

5 (B) Paragraph (1) of section 121(e) of such Act
 6 is amended by striking subparagraph (B).

7 (C) Paragraph (3) of section 121(e) of such Act
 8 is amended by striking subparagraph (B) and by re-
 9 designating subparagraph (C) as subparagraph (B).

10 (D) Paragraph (2) of section 121(e) of such
 11 Act is amended in the first sentence by striking
 12 “paragraph (1)(A)” and inserting “paragraph (1)”.

13 (d) EFFECTIVE DATE.—

14 (1) IN GENERAL.—Except as provided in para-
 15 graph (2), the amendments made by this section
 16 shall apply to taxable years beginning after Decem-
 17 ber 31, 1997.

18 (2) SUBSECTION (c)(2).—The amendments made
 19 by subsection (c)(2) shall apply to tax liabilities for
 20 taxable years beginning after December 31, 1995.

21 **SEC. 5. REVENUE REDUCTIONS OFFSET BY REDUCTIONS IN**
 22 **FUNDING FOR DEPARTMENT OF COMMERCE**
 23 **AND DEPARTMENT OF ENERGY.**

24 Any reduction in revenues to the Federal Government
 25 by reason of the amendments made by this Act should be

- 1 offset by reductions in the funds available for the Depart-
- 2 ment of Commerce and the Department of Energy.

