

105TH CONGRESS  
1ST SESSION

# H. R. 194

To enhance the financial security of children by providing for contributions  
by the Federal Government to Child Retirement Accounts.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 1997

Mr. HOUGHTON (for himself and Mrs. KENNELLY) introduced the following  
bill; which was referred to the Committee on Ways and Means

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## A BILL

To enhance the financial security of children by providing  
for contributions by the Federal Government to Child  
Retirement Accounts.

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

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Children’s Financial  
5       Security Act of 1997”.

6       **SEC. 2. FEDERAL CONTRIBUTIONS TO CHILD RETIREMENT**  
7       **ACCOUNTS.**

8       (a) IN GENERAL.—As soon as practicable after the  
9       close of each calendar year, the Secretary of the Treasury  
10      or his delegate shall transfer for such calendar year, from

1 amounts in the general fund of the Treasury not otherwise  
 2 appropriated, \$1,000 to the Child Retirement Account of  
 3 each individual who is an eligible child for such calendar  
 4 year.

5 (b) ELIGIBLE CHILD.—For purposes of this section,  
 6 the term “eligible child” means, with respect to any cal-  
 7 endar year, any individual who, as of the close of such  
 8 calendar year—

9 (1) is a citizen or resident alien of the United  
 10 States, and

11 (2) has not attained age 6.

12 (c) REDUCTION IN CONTRIBUTION FOR CHILDREN  
 13 OF HIGH INCOME PARENTS.—

14 (1) IN GENERAL.—If, with respect to an eligible  
 15 child, the adjusted gross income of the applicable  
 16 taxpayer for the taxable year ending with or within  
 17 a calendar year exceeds the threshold amount, the  
 18 \$1,000 amount in subsection (a) with respect to  
 19 such child for such calendar year shall be reduced  
 20 (but not below zero) by the amount which bears the  
 21 same ratio to \$1,000 as such excess bears to the  
 22 phaseout range.

23 (2) APPLICABLE TAXPAYER MAY MAKE-UP RE-  
 24 DUCED CONTRIBUTION.—If there is a reduction  
 25 under this subsection in the amount transferred

1 under subsection (a) to the Child Retirement Ac-  
2 count of an eligible child for any calendar year, the  
3 applicable taxpayer with respect to such child may  
4 (at such time and in such manner as the Secretary  
5 may prescribe) transfer an amount equal to the  
6 amount of such reduction to the Child Retirement  
7 Account of such child.

8 (d) CHILDREN BELOW AGE 19 AS OF ENACTMENT.—

9 (1) IN GENERAL.—In the case of an individual  
10 who, as of the close of 1997—

11 (A) is a citizen or resident alien of the  
12 United States, and

13 (B) has not attained age 19,  
14 the applicable taxpayer with respect to such individ-  
15 ual may (at such time and in such manner as the  
16 Secretary may prescribe) contribute to the Child Re-  
17 tirement Account of such child an amount equal to  
18 the lesser of \$6,000 or the product of \$1,000 and  
19 the age of such child as of the close of 1997. Any  
20 contribution under the preceding sentence may be  
21 made only during 1998 and 1999.

22 (2) REDUCTION OF CONTRIBUTION FOR CHIL-  
23 DREN OF HIGH INCOME PARENTS.—If, with respect  
24 to an individual described in paragraph (1), the ad-  
25 justed gross income of the applicable taxpayer for

1 the taxable year ending with or within 1998 exceeds  
2 the threshold amount, the amount otherwise deter-  
3 mined under paragraph (1) with respect to such in-  
4 dividual shall be reduced (but not below zero) by the  
5 amount which bears the same ratio to the amount  
6 so otherwise determined as such excess bears to the  
7 phaseout range.

8 (e) DEFINITIONS.—For purposes of subsections (c)  
9 and (d)—

10 (1) PHASEOUT RANGE.—The term “phaseout  
11 range” means—

12 (A) \$50,000 in the case of a joint return,

13 (B) \$33,000 in the case of an individual  
14 who is not married, and

15 (C) \$25,000 in the case of a married indi-  
16 vidual filing a separate return.

17 (2) THRESHOLD AMOUNT.—The term “thresh-  
18 old amount” means—

19 (A) \$100,000 in the case of a joint return  
20 for such taxable year,

21 (B) \$67,000 in the case of an individual  
22 who is not married, and

23 (C) \$50,000 in the case of a married indi-  
24 vidual filing a separate return.

1           (3) APPLICABLE TAXPAYER.—The term “appli-  
2       cable taxpayer” means, with respect to an eligible  
3       child—

4           (A) the taxpayer to whom a deduction is  
5       allowable under section 151(c) of the Internal  
6       Revenue Code of 1986 for such child, or

7           (B) if no taxpayer is described in subpara-  
8       graph (A), such child.

9       **SEC. 3. CHILD RETIREMENT ACCOUNTS.**

10       (a) IN GENERAL.—Subchapter F of chapter 1 of the  
11       Internal Revenue Code of 1986 (relating to exempt organi-  
12       zations) is amended by adding at the end the following  
13       new part:

14       **“PART IX—CHILD RETIREMENT**  
15       **ACCOUNTS**

“Sec. 530. Child Retirement Accounts.

16       **“SEC. 530. CHILD RETIREMENT ACCOUNTS.**

17       “(a) CHILD RETIREMENT ACCOUNT.—For purposes  
18       of this part, the term ‘Child Retirement Account’ means  
19       any trust created or organized in the United States for  
20       the exclusive benefit of the account beneficiary but only  
21       if the written governing instrument creating the trust  
22       meets the following requirements:

23           “(1) No contribution will be accepted unless it  
24       is in cash.

1           “(2) The only contributions which will be ac-  
2       cepted are—

3           “(A) contributions under section 2 of the  
4       Children’s Financial Security Act of 1997,

5           “(B) contributions of not more than \$100  
6       for each calendar year after the calendar year  
7       in which the account beneficiary attains age 5  
8       and before the calendar year in which such ben-  
9       eficiary attains age 19, and

10          “(C) trustee-to-trustee transfers to such  
11       trust from another Child Retirement Account of  
12       the account beneficiary.

13          “(3) The assets of the trust are invested only  
14       in an approved mutual fund.

15          “(4) The requirements of paragraphs (2)  
16       through (6) of section 408(a) are met.

17       “(b) TAX TREATMENT OF ACCOUNTS.—

18          “(1) IN GENERAL.—A Child Retirement Ac-  
19       count is exempt from taxation under this subtitle  
20       unless such account has ceased to be a Child Retire-  
21       ment Account. Notwithstanding the preceding sen-  
22       tence, any such Account is subject to the taxes im-  
23       posed by section 511 (relating to imposition of tax  
24       on unrelated business income of charitable, etc., or-  
25       ganizations).

1           “(2) ACCOUNT TERMINATIONS.—Rules similar  
2           to the rules of paragraphs (2) and (4) of section  
3           408(e) shall apply to Child Retirement Accounts; ex-  
4           cept that such paragraph (4) shall not apply to loans  
5           which are qualified special purpose distributions.

6           “(c) TAX TREATMENT OF DISTRIBUTIONS.—

7           “(1) IN GENERAL.—

8           “(A) WITHHOLDING.—The trustee of a  
9           Child Retirement Account shall deduct and  
10          withhold from any distribution from such Ac-  
11          count a tax equal to 20 percent of such dis-  
12          tribution.

13          “(B) NO OTHER TAX.—Distributions from  
14          a Child Retirement Account shall not be includ-  
15          ible in gross income.

16          “(C) CREDIT FOR AMOUNTS WITHHELD  
17          ONLY ON QUALIFIED SPECIAL PURPOSE LOAN  
18          DISTRIBUTIONS WHICH ARE REPAID.—In the  
19          case of an amount withheld under subpara-  
20          graph (A) on a qualified special purpose dis-  
21          tribution from a Child Retirement Account in  
22          the form of a loan, there shall be allowed as a  
23          credit against the tax imposed by this subtitle  
24          for any taxable year an amount which bears the

1 same ratio to the amount withheld as the prin-  
2 cipal amount of such loan which is repaid dur-  
3 ing such taxable year bears to the total prin-  
4 cipal amount of the loan. The credit allowed  
5 under the preceding sentence shall be treated as  
6 a credit allowed under subpart C of part IV of  
7 subchapter A of this chapter and shall be al-  
8 lowed to the account beneficiary.

9 “(2) PENALTY ON DISTRIBUTIONS NOT USED  
10 FOR QUALIFIED PURPOSES.—If any distribution is  
11 made from a Child Retirement Account which is not  
12 a qualified distribution, the account beneficiary’s tax  
13 imposed by this chapter for the taxable year in  
14 which such distribution is made shall be increased by  
15 an amount equal to 50 percent of such distribution.

16 “(3) QUALIFIED DISTRIBUTION.—For purposes  
17 of paragraph (2), the term ‘qualified distribution’  
18 means any distribution—

19 “(A) made on or after the date on which  
20 the account beneficiary attains age 59½,

21 “(B) made to a beneficiary (or to the es-  
22 tate of the individual) on or after the death of  
23 the account beneficiary,



1           “(C) attributable to the account bene-  
2           ficiary being disabled (within the meaning of  
3           section 72(m)(7)), or

4           “(D) which is a qualified special purpose  
5           distribution.

6           “(4) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of paragraph (3), the term  
7           ‘qualified special purpose distribution’ means any  
8           distribution (including in the form of a loan) from  
9           a Child Retirement Account to the account bene-  
10          ficiary—

12           “(A) if such distribution is a qualified  
13          first-time homebuyer distribution, or

14           “(B) to the extent the aggregate distribu-  
15          tions from the Account does not exceed the  
16          qualified higher education expenses of the ac-  
17          count beneficiary for the taxable year in which  
18          received.

19          Such term shall not include any distribution from  
20          such an Account during a calendar year to the ex-  
21          tent such distribution, when added to the amount of  
22          all prior distributions from such Account during the  
23          calendar year and all prior calendar years, exceeds  
24          an amount equal to 50 percent of the balance in

1       such Account as of the close of the prior calendar  
2       year.

3               “(5) QUALIFIED FIRST-TIME HOMEBUYER DIS-  
4       TRIBUTIONS.—

5               “(A) IN GENERAL.—For purposes of this  
6       subsection, the term ‘qualified first-time home-  
7       buyer distribution’ means any payment or dis-  
8       tribution received by the account beneficiary to  
9       the extent such payment or distribution is used  
10      by such beneficiary within a reasonable period  
11      to pay qualified acquisition costs with respect to  
12      a principal residence for such beneficiary as a  
13      first-time homebuyer.

14              “(B) QUALIFIED ACQUISITION COSTS.—  
15      For purposes of this paragraph, the term  
16      ‘qualified acquisition costs’ means the costs of  
17      acquiring, constructing, or reconstructing a res-  
18      idence. Such term includes any usual or reason-  
19      able settlement, financing, or other closing  
20      costs.

21              “(C) FIRST-TIME HOMEBUYER; OTHER  
22      DEFINITIONS.—For purposes of this para-  
23      graph—

1           “(i) FIRST-TIME HOMEBUYER.—The  
2           term ‘first-time homebuyer’ means any in-  
3           dividual if such individual (and, if married,  
4           such individual’s spouse) had no present  
5           ownership interest in a principal residence  
6           during the 3-year period ending on the  
7           date of acquisition of the principal resi-  
8           dence to which this paragraph applies.

9           “(ii) PRINCIPAL RESIDENCE.—The  
10          term ‘principal residence’ has the same  
11          meaning as when used in section 1034.

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

14                 “(I) on which a binding contract  
15                 to acquire the principal residence to  
16                 which subparagraph (A) applies is en-  
17                 tered into, or

18                 “(II) on which a binding contract  
19                 to construct or reconstruct such a  
20                 principal residence is entered into.

21          “(6) QUALIFIED HIGHER EDUCATION EX-  
22          PENSES.—For purposes of this subsection—

23                 “(A) IN GENERAL.—The term ‘qualified  
24                 higher education expenses’ means—

1 “(i) expenses for tuition, fees, books,  
 2 supplies, and equipment required for the  
 3 enrollment or attendance of the account  
 4 beneficiary at an eligible educational insti-  
 5 tution (as defined in section 135(c)(3)),  
 6 and

7 “(ii) reasonable living expenses while  
 8 away from home while attending such in-  
 9 stitution.

10 “(B) COORDINATION WITH SAVINGS BOND  
 11 PROVISIONS.—The amount of qualified higher  
 12 education expenses for any taxable year shall be  
 13 reduced by any amount excludable from gross  
 14 income under section 135.

15 “(7) EXCEPTIONS FROM WITHHOLDING TAX  
 16 AND PENALTY FOR TRUSTEE-TO-TRUSTEE TRANS-  
 17 FERS.—Paragraphs (1)(A) and (2) shall not apply  
 18 to any trustee-to-trustee transfers from a Child Re-  
 19 tirement Account to another Child Retirement Ac-  
 20 count of the same account beneficiary.

21 “(d) APPROVED MUTUAL FUND.—For purposes of  
 22 this section—

23 “(1) IN GENERAL.—The term ‘approved mutual  
 24 fund’ means any fund of any regulated investment  
 25 company (as defined in section 851(a)) if—

1           “(A) an election under section 851(b)(1) is  
2           in effect with respect to such company, and

3           “(B) such fund is designated by the Fed-  
4           eral Retirement Thrift Investment Board for  
5           purposes of this section.

6           “(2) STANDARDS FOR DESIGNATION.—A fund  
7           may be designated under paragraph (1) only if the  
8           Federal Retirement Thrift Investment Board deter-  
9           mines that it is reasonable to expect that not less  
10          than 75 percent of the total value of the assets of  
11          such fund are represented by equity securities.

12          “(e) CERTAIN RULES TO APPLY.—Rules similar to  
13          the following rules shall apply for purposes of this section:

14               “(1) Section 219(f)(3) (relating to time when  
15               contributions deemed made).

16               “(2) Section 408(g) (relating to community  
17               property laws).

18               “(3) Section 408(h) (relating to custodial ac-  
19               counts).

20          “(f) REPORTS.—The Secretary may require the  
21          trustee of a Child Retirement Account to make such re-  
22          ports regarding such Account to the Secretary and to the  
23          account beneficiary with respect to contributions, distribu-  
24          tions, and such other matters as the Secretary determines  
25          appropriate. The reports required by this subsection shall

1 be filed at such time and in such manner and furnished  
2 to such individuals at such time and in such manner as  
3 may be required by the Secretary.”

4 (b) CONFORMING AMENDMENTS.—

5 (1) TAX ON PROHIBITED TRANSACTIONS.—

6 (A) Section 4975 of such Code (relating to  
7 tax on prohibited transactions) is amended by  
8 adding at the end of subsection (c) the follow-  
9 ing new paragraph:

10 “(5) SPECIAL RULE FOR CHILD RETIREMENT  
11 ACCOUNTS.—An individual for whose benefit a Child  
12 Retirement Account (within the meaning of section  
13 530(a)) is established shall be exempt from the tax  
14 imposed by this section with respect to any trans-  
15 action concerning such account (which would other-  
16 wise be taxable under this section) if, with respect  
17 to such transaction, the account ceases to be a Child  
18 Retirement Account by reason of the application of  
19 section 530(b)(2) to such Account.”

20 (B) Paragraph (1) of section 4975(e) of  
21 such Code is amended by striking “or” at the  
22 end of subparagraph (D), by redesignating sub-  
23 paragraph (E) as subparagraph (F), and by in-  
24 serting after subparagraph (D) the following  
25 new subparagraph:

1 “(E) a Child Retirement Account described  
2 in section 530(a), or”.

3 (2) FAILURE TO PROVIDE REPORTS ON CHILD  
4 RETIREMENT ACCOUNTS.—Paragraph (2) of section  
5 6693(a) of such Code is amended by striking “and”  
6 at the end of subparagraph (A), by striking the pe-  
7 riod at the end of subparagraph (B) and inserting  
8 “, and”, and by adding at the end the following new  
9 subparagraph:

10 “(C) section 530(f) (relating to Child Re-  
11 tirement Accounts).”

12 (3) CLERICAL AMENDMENTS.—

13 (A) The table of parts for subchapter F of  
14 chapter 1 of such Code is amended by adding  
15 at the end the following new item:

“Part IX. Child Retirement Accounts.”

16 (B) The section heading for section 6693  
17 of such Code is amended to read as follows:

18 **“SEC. 6693. FAILURE TO PROVIDE REPORTS ON CERTAIN**  
19 **RETIREMENT ACCOUNTS, ETC.”**

20 (C) The table of sections for part I of sub-  
21 chapter B of chapter 68 of such Code is amend-  
22 ed by striking the item relating to section 6693  
23 and inserting the following new item:

“Sec. 6693. Failure to provide reports on certain retirement ac-  
counts, etc.”

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1997.

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