

105TH CONGRESS  
1ST SESSION

# H. R. 213

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to an individual training account.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 1997

Mr. KLINK (for himself, Mr. FILNER, Mr. FALEOMAVAEGA, Mr. UNDERWOOD, Mr. WATT of North Carolina, Mr. ACKERMAN, Mr. ENGEL, Mr. FROST, and Mr. STUPAK) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to an individual training account.

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 “Individual Training  
5 Account Act of 1997”.

6 **SEC. 2. INDIVIDUAL TRAINING ACCOUNTS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-  
8 ter 1 of the Internal Revenue Code of 1986 (relating to  
9 additional itemized deductions for individuals) is amended

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1 by redesignating section 221 as section 222 and by insert-  
 2 ing after section 220 the following new section:

3 **“SEC. 221. INDIVIDUAL TRAINING ACCOUNTS.**

4       “(a) DEDUCTION ALLOWED.—In the case of an indi-  
 5 vidual, there shall be allowed as a deduction the amount  
 6 paid in cash for the taxable year by or on behalf of such  
 7 individual to an individual training account for the benefit  
 8 of such individual.

9       “(b) LIMITATIONS.—

10           “(1) MAXIMUM DEDUCTION.—The amount al-  
 11 lowed as a deduction under subsection (a) for any  
 12 taxable year shall not exceed the lesser of—

13                   “(A) \$2,000, or

14                   “(B) the excess of \$6,000 over the aggre-  
 15 gate amount in all individual training accounts  
 16 of the individual as of the close of the preceding  
 17 taxable year.

18       The preceding sentence shall be applied separately  
 19 for each individual.

20           “(2) NO DEDUCTION BEFORE BENEFICIARY AT-  
 21 TAINS AGE 18.—No deduction shall be allowed for  
 22 any contribution to an individual training account  
 23 established for the benefit of an individual who has  
 24 not attained age 18 before the close of the taxable  
 25 year for which such contribution is made.

1       “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section:

3               “(1) INDIVIDUAL TRAINING ACCOUNT.—The  
4 term ‘individual training account’ means a trust cre-  
5 ated or organized in the United States exclusively  
6 for the purpose of paying the qualified expenses of  
7 the individual for whose benefit the trust is main-  
8 tained, but only if the written governing instrument  
9 creating the trust meets the following requirements:

10               “(A) Except in the case of a rollover con-  
11 tribution described in subsection (d)(3), no con-  
12 tribution will be accepted—

13                       “(i) unless it is in cash, or

14                       “(ii) in excess of the amount allowed  
15 as a deduction under this section.

16               “(B) The trustee is a bank (as defined in  
17 section 408(n)) or another person who dem-  
18 onstrates to the satisfaction of the Secretary  
19 that the manner in which that person will ad-  
20 minister the trust will be consistent with the re-  
21 quirements of this section.

22               “(C) No part of the trust assets will be in-  
23 vested in life insurance contracts.

24               “(D) The interest of the individual in the  
25 balance of his account is nonforfeitable.

1           “(E) The assets of the trust shall not be  
2           commingled with other property except in a  
3           common trust fund or common investment  
4           fund.

5           “(2) QUALIFIED EXPENSES.—The term ‘quali-  
6           fied expenses’ means—

7                   “(A) job training expenses, and

8                   “(B) job-related relocation expenses.

9           “(3) JOB TRAINING EXPENSES.—

10                   “(A) IN GENERAL.—The term ‘job training  
11           expenses’ means—

12                           “(i) tuition and fees required for the  
13                           enrollment or attendance of—

14                                   “(I) a student at an eligible edu-  
15                                   cational institution, or

16                                   “(II) a worker in an applicable  
17                                   training program,

18                                   “(ii) fees, books, supplies, and equip-  
19                                   ment required for—

20   “(I) courses of instruction at an  
21   eligible educational institution, or

22   “(II) for an applicable training  
23   program, and

24   “(iii) a reasonable allowance for meals  
25   and lodging while attending an eligible

1 educational institution or an applicable  
2 training program.

3 “(B) ELIGIBLE EDUCATIONAL INSTITU-  
4 TION.—The term ‘eligible educational institu-  
5 tion’ means—

6 “(i) an institution of higher education,  
7 or

8 “(ii) a vocational school.

9 “(C) INSTITUTION OF HIGHER EDU-  
10 CATION.—The term ‘institution of higher edu-  
11 cation’ means the institutions described in sec-  
12 tion 1201(a) or 481(a) of the Higher Education  
13 Act of 1965.

14 “(D) VOCATIONAL SCHOOL.—The term  
15 ‘vocational school’ means an area vocational  
16 education school as defined in subparagraph  
17 (C) or (D) of section 521(4) of the Carl D. Per-  
18 kins Vocational and Applied Technology Edu-  
19 cation Act to the extent such school is located  
20 within any State (as defined in such section).

21 “(E) APPLICABLE TRAINING PROGRAM.—  
22 The term ‘applicable training program’  
23 means—

1 “(i) any applicable program (as de-  
2 fined in section 314(g) of the Job Training  
3 Partnership Act), and

4 “(ii) any training program approved  
5 under section 236 of the Trade Act of  
6 1974.

7 “(4) DENIAL OF DEDUCTION FOR AMOUNTS  
8 PAID FROM ACCOUNT.—If any amount paid or dis-  
9 tributed from an individual training account is not  
10 included in gross income by reason of being used to  
11 pay any qualified expense, such expense shall not be  
12 taken into account in determining the amount of any  
13 deduction under section 212, 217, or any other pro-  
14 vision of this chapter.

15 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

16 “(1) IN GENERAL.—Except as otherwise pro-  
17 vided in this subsection, any amount paid or distrib-  
18 uted out of an individual training account shall be  
19 included in gross income of the payee or distributee  
20 for the taxable year in which the payment or dis-  
21 tribution is received to the extent such amount is  
22 not used exclusively to pay the qualified expenses  
23 paid during such taxable year by the individual for  
24 whose benefit the account is established.

1           “(2) EXCESS CONTRIBUTIONS RETURNED BE-  
2       FORE DUE DATE OF RETURN.—Paragraph (1) shall  
3       not apply to the distribution of any contribution paid  
4       during a taxable year to an individual training ac-  
5       count to the extent that such contribution exceeds  
6       the amount allowable as a deduction under sub-  
7       section (a) if—

8           “(A) such distribution is received on or be-  
9       fore the day prescribed by law (including exten-  
10      sions of time) for filing such individual’s return  
11      for such taxable year,

12          “(B) no deduction is allowed under sub-  
13      section (a) with respect to such excess contribu-  
14      tion, and

15          “(C) such distribution is accompanied by  
16      the amount of net income attributable to such  
17      excess contribution.

18      Any net income described in subparagraph (C) shall  
19      be included in the gross income of the individual for  
20      the taxable year in which such excess contribution  
21      was made.

22          “(3) ROLLOVERS.—Paragraph (1) shall not  
23      apply to any amount paid or distributed out of an  
24      individual training account to the individual for  
25      whose benefit the account is maintained if the entire

1 amount received (including money and any other  
2 property) is paid into another individual training ac-  
3 count for the benefit of such individual not later  
4 than the 60th day after the day on which he received  
5 the payment or distribution.

6 “(e) TAX TREATMENT OF ACCOUNTS.—

7 “(1) EXEMPTION FROM TAX.—An individual  
8 training account is exempt from taxation under this  
9 subtitle unless such account has ceased to be an in-  
10 dividual training account by reason of paragraph  
11 (2). Notwithstanding the preceding sentence, any  
12 such account is subject to the taxes imposed by sec-  
13 tion 511 (relating to imposition of tax on unrelated  
14 business income of charitable, etc. organizations).

15 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE  
16 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-  
17 ACTION.—

18 “(A) IN GENERAL.—If the individual for  
19 whose benefit an individual training account is  
20 established engages in any transaction prohib-  
21 ited by section 4975 with respect to the ac-  
22 count, the account shall cease to be an individ-  
23 ual training account as of the first day of the  
24 taxable year during which such transaction oc-  
25 curs.



1                   “(B) ACCOUNT TREATED AS DISTRIBUTING  
 2                   ALL ITS ASSETS.—In any case in which any ac-  
 3                   count ceases to be an individual training ac-  
 4                   count by reason of subparagraph (A) as of the  
 5                   first day of any taxable year, paragraph (1) of  
 6                   subsection (d) shall apply as if there was a dis-  
 7                   tribution on such first day in an amount equal  
 8                   to the fair market value (on such first day) of  
 9                   all assets in the account (on such first day) and  
 10                  such distribution was not used to pay qualified  
 11                  expenses.

12                  “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-  
 13                  RITY.—If, during any taxable year, the individual for  
 14                  whose benefit an individual training account is es-  
 15                  tablished uses the account or any portion thereof as  
 16                  security for a loan, the portion so used shall be  
 17                  treated as distributed to the individual so using such  
 18                  portion and not used to pay qualified expenses.

19                  “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-  
 20                  CLUDED IN GROSS INCOME.—

21                  “(1) DISTRIBUTION NOT USED FOR QUALIFIED  
 22                  EXPENSES.—In the case of any payment or distribu-  
 23                  tion to which subsection (d)(1) applies, the tax li-  
 24                  ability of the payee or distributee under this chapter

1 for the taxable year in which the payment or dis-  
2 tribution is received shall be increased by an amount  
3 equal to 10 percent of the amount of the payment  
4 or distribution which is includible in the gross in-  
5 come of such payee or distributee for such taxable  
6 year.

7 “(2) DISQUALIFICATION CASES.—If an amount  
8 is includible in the gross income of an individual for  
9 a taxable year because such amount is required to  
10 be treated as a distribution under paragraph (2) or  
11 (3) of subsection (e), such individual’s tax liability  
12 under this chapter for such taxable year shall be in-  
13 creased by an amount equal to 10 percent of such  
14 amount required to be treated as a distribution and  
15 included in his gross income.

16 “(3) DISABILITY OR DEATH CASES.—Para-  
17 graphs (1) and (2) shall not apply if the payment  
18 or distribution is made after the individual for whose  
19 benefit the individual training account is maintained  
20 becomes disabled within the meaning of section  
21 72(m)(7) or dies.

22 “(4) DISTRIBUTIONS AFTER AGE 59½.—Para-  
23 graphs (1) and (2) shall not apply if the payment  
24 or distribution is made after the date the individual

1       for whose benefit the individual training account is  
2       maintained attains age 59½.

3       “(g) COMMUNITY PROPERTY LAWS.—This section  
4 shall be applied without regard to any community property  
5 laws.

6       “(h) CUSTODIAL ACCOUNTS.—For purposes of this  
7 section, a custodial account shall be treated as a trust if  
8 the assets of such account are held by a bank (as defined  
9 in section 408(n)) or another person who demonstrates,  
10 to the satisfaction of the Secretary, that the manner in  
11 which he will administer the account will be consistent  
12 with the requirements of this section, and if the custodial  
13 account would, except for the fact that it is not a trust,  
14 constitute an individual training account described in sub-  
15 section (c)(1). For purposes of this title, in the case of  
16 a custodial account treated as a trust by reason of the  
17 preceding sentence, the custodian of such account shall be  
18 treated as the trustee thereof.

19       “(i) REPORTS.—The trustee of an individual training  
20 account shall make such reports regarding such account  
21 to the Secretary and to the individual for whose benefit  
22 the account is maintained with respect to contributions,  
23 distributions, and such other matters as the Secretary  
24 may require under regulations. The reports required by  
25 this subsection shall be filed at such time and in such

1 manner and furnished to such individuals at such time and  
 2 in such manner as may be required by those regulations.”

3 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
 4 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
 5 such Code (relating to retirement savings) is amended by  
 6 inserting after paragraph (16) the following new para-  
 7 graph:

8 “(17) INDIVIDUAL TRAINING ACCOUNTS.—The  
 9 deduction allowed by section 221 (relating to individ-  
 10 ual training accounts).”

11 (c) TAX ON EXCESS CONTRIBUTIONS.—

12 (1) Subsection (a) of section 4973 of such Code  
 13 (relating to tax on excess contributions to individual  
 14 retirement accounts, certain section 403(b) con-  
 15 tracts, and certain individual retirement annuities)  
 16 is amended by striking “or” at the end of paragraph  
 17 (2), by redesignating paragraph (3) as paragraph  
 18 (4), and by inserting after paragraph (2) the follow-  
 19 ing new paragraph:

20 “(3) an individual training account (within the  
 21 meaning of section 221(c)(1)), or”.

22 (2) Section 4973 of such Code is amended by  
 23 adding at the end the following new subsection:

24 “(e) EXCESS CONTRIBUTIONS TO INDIVIDUAL  
 25 TRAINING ACCOUNTS.—For purposes of this section, in

1 the case of an individual training account, the term ‘excess  
 2 contributions’ means the amount by which the amount  
 3 contributed for the taxable year to the account exceeds  
 4 the amount allowable as a deduction under section 221  
 5 for such taxable year. For purposes of this subsection, any  
 6 contribution which is distributed out of the individual  
 7 training account in a distribution to which section  
 8 221(d)(2) applies shall be treated as an amount not con-  
 9 tributed.”

10 (3) The section heading for section 4973 of  
 11 such Code is amended to read as follows:

12 **“SEC. 4973. TAX ON EXCESS CONTRIBUTIONS TO CERTAIN**  
 13 **RETIREMENT ACCOUNTS, ETC.”**

14 (d) TAX ON PROHIBITED TRANSACTIONS.—

15 (1) Paragraph (1) of section 4975(e) of such  
 16 Code (relating to prohibited transactions) is amend-  
 17 ed by striking “or” at the end of subparagraph (D),  
 18 by redesignating subparagraph (E) as subparagraph  
 19 (F), and by inserting after subparagraph (D) the  
 20 following new subparagraph:

21 “(E) an individual training account de-  
 22 scribed in section 221(c)(1), or”.

23 (2) Subsection (c) of section 4975 of such Code  
 24 is amended by adding at the end the following new  
 25 paragraph:

1           “(5) SPECIAL RULE FOR INDIVIDUAL TRAINING  
 2       ACCOUNTS.—An individual for whose benefit an indi-  
 3       vidual training account is established shall be ex-  
 4       empt from the tax imposed by this section with re-  
 5       spect to any transaction concerning such account  
 6       (which would otherwise be taxable under this sec-  
 7       tion) if, with respect to such transaction, the ac-  
 8       count ceases to be an individual training account by  
 9       reason of the application of section 221(e)(2)(A) to  
 10      such account.”

11       (e) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
 12      TRAINING ACCOUNTS.—

13           (1) Paragraph (2) of section 6693(a) of such  
 14       Code (relating to failure to provide reports) is  
 15       amended by striking “and” at the end of subpara-  
 16       graph (A), by striking the period at the end of sub-  
 17       paragraph (B) and inserting “, and”, and by adding  
 18       at the end the following new subparagraph:

19                   “(C) section 221(i) (relating to individual  
 20                   training accounts).”

21           (2) The section heading for section 6693 of  
 22       such Code is amended to read as follows:

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

25       (f) CLERICAL AMENDMENTS.—

1           (1) The table of sections for part VII of sub-  
 2           chapter B of chapter 1 of such Code is amended by  
 3           striking the item relating to section 221 and insert-  
 4           ing the following new items:

          “Sec. 221. Individual training accounts.  
           “Sec. 222. Cross reference.”

5           (2) The table of sections for chapter 43 of such  
 6           Code is amended by striking the item relating to sec-  
 7           tion 4973 and inserting the following new item:

          “Sec. 4973. Tax on excess contributions to certain retirement ac-  
           counts, etc.”

8           (3) The table of sections for subchapter B of  
 9           chapter 68 of such Code is amended by striking the  
 10          item relating to section 6693 and inserting the fol-  
 11          lowing new item:

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

12          (g) EFFECTIVE DATE.—The amendments made by  
 13          this section shall apply to contributions made for taxable  
 14          years beginning after December 31, 1997.

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