

105TH CONGRESS  
2D SESSION

# H. R. 3497

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 18, 1998

Mr. McCRERY (for himself, Mr. ENGLISH of Pennsylvania, Mr. BAKER, Mr. SOLOMON, Mr. HERGER, Mr. JOHN, Mr. SENSENBRENNER, Mr. TAUZIN, Mr. HOUGHTON, and Mr. ARMEY) 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 individual investment accounts, and for other purposes.

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 Investment  
5 Account Act of 1998”.

6 **SEC. 2. ESTABLISHMENT OF INDIVIDUAL INVESTMENT AC-**  
7 **COUNTS.**

8 (a) IN GENERAL.—Part VII of subchapter B of chap-  
9 ter 1 of the Internal Revenue Code of 1986 (relating to

1 additional itemized deductions for individuals) is amended  
 2 by redesignating section 222 as section 223 and by insert-  
 3 ing after section 221 the following new section:

4 **“SEC. 222. INDIVIDUAL INVESTMENT ACCOUNTS.**

5       “(a) DEDUCTION ALLOWED.—In the case of an indi-  
 6 vidual, there shall be allowed as a deduction an amount  
 7 equal to the aggregate amount paid in cash for the taxable  
 8 year by such individual to an individual investment ac-  
 9 count established for the benefit of such individual.

10       “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
 11 poses of this section—

12               “(1) INDIVIDUAL INVESTMENT ACCOUNT.—The  
 13 term ‘individual investment account’ means a trust  
 14 created or organized in the United States for the ex-  
 15 clusive benefit of an individual, but only if the writ-  
 16 ten governing instrument creating the trust meets  
 17 the following requirements:

18                       “(A) No contribution will be accepted un-  
 19 less it is in cash.

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

1           “(C) No part of the trust assets will be in-  
2           vested in any collectible (as defined in section  
3           408(m)).

4           “(D) The assets of the trust will not be  
5           commingled with other property except in a  
6           common trust fund or common investment  
7           fund.

8           “(2) TIME WHEN CONTRIBUTIONS DEEMED  
9           MADE.—A taxpayer shall be deemed to have made a  
10          contribution on the last day of a taxable year if the  
11          contribution is made on account of such taxable year  
12          and is made not later than the time prescribed by  
13          law for filing the return for such taxable year (not  
14          including extensions thereof).

15          “(c) TAX TREATMENT OF DISTRIBUTIONS.—

16               “(1) IN GENERAL.—Except as otherwise pro-  
17               vided in this subsection, any amount distributed out  
18               of an individual investment account shall be included  
19               in gross income by the distributee unless such  
20               amount is part of a qualified 1st-time homebuyer  
21               distribution.

22               “(2) QUALIFIED 1ST-TIME HOMEBUYER DIS-  
23               TRIBUTION.—For purposes of this subsection—

24                       “(A) IN GENERAL.—The term ‘qualified  
25                       1st-time homebuyer distribution’ means any

1 payment or distribution received by an individ-  
2 ual who is a 1st-time homebuyer (as defined in  
3 section 72(t)(8)) from an individual investment  
4 account to the extent such payment or distribu-  
5 tion is used by such individual before the close  
6 of the 120th day after the day on which such  
7 payment or distribution is received to pay quali-  
8 fied acquisition costs (as defined in section  
9 72(t)(8)) with respect to a principal residence  
10 (within the meaning of section 121) for such  
11 individual.

12 “(B) DOLLAR LIMITATION.—The aggre-  
13 gate amount which may be treated as qualified  
14 1st-time homebuyer distributions for all taxable  
15 years shall not exceed \$20,000.

16 “(C) BASIS REDUCTION.—The basis of any  
17 principal residence described in subparagraph  
18 (A) shall be reduced by the amount of any  
19 qualified 1st-time homebuyer distribution.

20 “(3) TRANSFER OF ACCOUNT INCIDENT TO DI-  
21 VORCE.—The transfer of an individual’s interest in  
22 an individual investment account to his former  
23 spouse under a divorce decree or under a written in-  
24 strument incident to a divorce shall not be consid-  
25 ered a taxable transfer made by such individual not-

1       withstanding any other provision of this subtitle, and  
2       such interest at the time of the transfer shall be  
3       treated as an individual investment account of such  
4       spouse and not of such individual. Thereafter such  
5       account shall be treated, for purposes of this sub-  
6       title, as maintained for the benefit of such spouse.

7       “(d) TAX TREATMENT OF ACCOUNTS.—

8               “(1) EXEMPTION FROM TAX.—An individual in-  
9       vestment account shall be exempt from taxation  
10      under this subtitle unless such account has ceased to  
11      be such an account by reason of paragraph (2). Not-  
12      withstanding the preceding sentence, any such ac-  
13      count shall be subject to the taxes imposed by sec-  
14      tion 511 (relating to imposition of tax on unrelated  
15      business income of charitable, etc. organizations).

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

19                      “(A) IN GENERAL.—If, during any taxable  
20      year of the individual for whose benefit the indi-  
21      vidual investment account is established, that  
22      individual engages in any transaction prohibited  
23      by section 4975 with respect to the account, the  
24      account shall cease to be an individual invest-

1           ment account as of the first day of that taxable  
2           year.

3                   “(B) ACCOUNT TREATED AS DISTRIBUTING  
4           ALL ITS ASSETS.—In any case in which any ac-  
5           count ceases to be an individual investment ac-  
6           count by reason of subparagraph (A) on the  
7           first day of any taxable year, paragraph (1) of  
8           subsection (c) shall be applied as if there were  
9           a distribution on such first day in an amount  
10          equal to the fair market value (on such first  
11          day) of all assets in the account (on such first  
12          day).

13                   “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-  
14          RITY.—If, during any taxable year, an individual for  
15          whose benefit an individual investment account is es-  
16          tablished uses the account or any portion thereof as  
17          security for a loan, the portion so used shall be  
18          treated as distributed to that individual.

19                   “(4) ROLLOVER CONTRIBUTIONS.—Subsection  
20          (c)(1) shall not apply to any amount paid or distrib-  
21          uted out of an individual investment account to the  
22          individual for whose benefit the account is main-  
23          tained if such amount is paid into another individual  
24          investment account for the benefit of such individual

1 not later than the 60th day after the day on which  
2 he receives the payment or distribution.

3 “(e) COST-OF-LIVING ADJUSTMENT.—

4 “(1) IN GENERAL.—In the case of any taxable  
5 year beginning in a calendar year after 1998, the  
6 \$20,000 amount contained in subsection (c)(2)(B)  
7 shall be increased by an amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-  
10 mined under section 1(f)(3) for the calendar  
11 year in which the taxable year begins by sub-  
12 stituting ‘calendar year 1997’ for ‘calendar year  
13 1992’ in subparagraph (B) thereof.

14 “(2) ROUNDING.—If any dollar amount (as in-  
15 creased under paragraph (1)) is not a multiple of  
16 \$10, such dollar amount shall be increased to near-  
17 est multiple of \$10.

18 “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
19 section, a custodial account shall be treated as a trust if  
20 the assets of such account are held by a bank (as defined  
21 in section 408(n)) or another person who demonstrates,  
22 to the satisfaction of the Secretary, that the manner in  
23 which he will administer the account will be consistent  
24 with the requirements of this section, and if the custodial  
25 account would, except for the fact that it is not a trust,

1 constitute an individual investment account described in  
2 subsection (b). For purposes of this title, in the case of  
3 a custodial account treated as a trust by reason of the  
4 preceding sentence, the custodian of such account shall be  
5 treated as the trustee thereof.

6 “(g) REPORTS.—The trustee of an individual invest-  
7 ment account shall make such reports regarding such ac-  
8 count to the Secretary and to the individual for whose ben-  
9 efit the account is maintained with respect to contribu-  
10 tions, distributions, and such other matters as the Sec-  
11 retary may require under regulations. The reports re-  
12 quired by this subsection shall be filed at such time and  
13 in such manner and furnished to such individuals at such  
14 time and in such manner as may be required by those reg-  
15 ulations.”.

16 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
17 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
18 such Code (defining adjusted gross income) is amended  
19 by inserting after paragraph (17) the following new para-  
20 graph:

21 “(18) INDIVIDUAL INVESTMENT ACCOUNT CON-  
22 TRIBUTIONS.—The deduction allowed by section 222  
23 (relating to individual investment accounts).”

24 (c) INDIVIDUAL INVESTMENT ACCOUNTS EXEMPT  
25 FROM ESTATE TAX.—Part III of subchapter A of chapter



1 11 of such Code is amended by redesignating section 2046  
2 as section 2047 and by inserting after section 2045 the  
3 following new section:

4 **“SEC. 2046. INDIVIDUAL INVESTMENT ACCOUNTS.**

5 “Notwithstanding any other provision of law, there  
6 shall be excluded from the value of the gross estate of the  
7 value of any individual investment account (as defined in  
8 section 222(b)). Section 1014 shall not apply to such ac-  
9 counts.”

10 (d) TAX ON PROHIBITED TRANSACTIONS.—Section  
11 4975 of such Code (relating to prohibited transactions)  
12 is amended—

13 (1) by adding at the end of subsection (c) the  
14 following new paragraph:

15 “(6) SPECIAL RULE FOR INDIVIDUAL INVEST-  
16 MENT ACCOUNTS.—An individual for whose benefit  
17 an individual investment account is established shall  
18 be exempt from the tax imposed by this section with  
19 respect to any transaction concerning such account  
20 (which would otherwise be taxable under this sec-  
21 tion) if, with respect to such transaction, the ac-  
22 count ceases to be an individual investment account  
23 by reason of the application of section 222(d)(2)(A)  
24 to such account.”; and

1           (2) in subsection (e)(1), by striking “or” at the  
 2           end of subparagraph (E), by redesignating subpara-  
 3           graph (F) as subparagraph (G), and by inserting the  
 4           following new subparagraph after subparagraph (E):

5                   “(F) an individual investment account de-  
 6                   scribed in section 222(b), or”.

7           (e) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
 8 INVESTMENT ACCOUNTS.—Paragraph (2) of section  
 9 6693(a) of such Code (relating to failure to provide re-  
 10 ports on individual retirement account or annuities) is  
 11 amended by redesignating subparagraphs (C) and (D) as  
 12 subparagraphs (D) and (E), respectively, and by inserting  
 13 after subparagraph (B) the following new paragraph:

14                   “(C) section 222(g) (relating to individual  
 15                   investment accounts),”.

16           (f) ADJUSTMENT OF BASIS OF RESIDENCE AC-  
 17 QUIRED THROUGH USE OF ACCOUNT.—Subsection (a) of  
 18 section 1016 of such Code is amended by striking “and”  
 19 at the end of paragraph (26), by striking the period at  
 20 the end of paragraph (27) and inserting “, and”, and by  
 21 adding at the end thereof the following new paragraph:

22                   “(28) to the extent provided in section  
 23                   222(c)(2)(C), in the case of a residence the acquisi-  
 24                   tion of which was made in whole or in part with  
 25                   funds from an individual investment account.”

1 (g) CLERICAL AMENDMENTS.—

2 (1) The table of sections for part VII of sub-  
3 chapter B of chapter 1 of such Code is amended by  
4 striking the item relating to section 222 and insert-  
5 ing the following:

“Sec. 222. Individual investment accounts.  
“Sec. 223. Cross reference.”

6 (2) The table of sections for part III of sub-  
7 chapter A of chapter 11 of such Code is amended by  
8 striking the item relating to section 2046 and insert-  
9 ing the following new items:

“Sec. 2046. Individual investment accounts.  
“Sec. 2047. Disclaimers.”

10 (h) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 1997.

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