

105TH CONGRESS
1ST SESSION

H. R. 891

To amend the Internal Revenue Code of 1986 to increase the maximum amount of contributions to individual retirement accounts and the amounts of adjusted gross income at which the IRA deduction phases out for active participants in pension plans, and to allow penalty-free distributions from individual retirement accounts and 401(k) plans for certain purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 27, 1997

Mr. SAXTON (for himself, Mr. DELAY, Mr. STUMP, Mr. MILLER of Florida, Mr. ARMEY, Mr. CHABOT, and Mr. SMITH of New Jersey) 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 increase the maximum amount of contributions to individual retirement accounts and the amounts of adjusted gross income at which the IRA deduction phases out for active participants in pension plans, and to allow penalty-free distributions from individual retirement accounts and 401(k) plans for certain purposes.

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. INCREASE IN CONTRIBUTION LIMITS AND**
 2 **AMOUNTS AT WHICH PHASE OUT OF DEDUC-**
 3 **TION BEGINS FOR INDIVIDUAL RETIREMENT**
 4 **ACCOUNT CONTRIBUTIONS.**

5 (a) INCREASE IN MAXIMUM AMOUNT OF CONTRIBU-
 6 TION TO INDIVIDUAL RETIREMENT ACCOUNTS.—

7 (1) IN GENERAL.—Subparagraph (A) of section
 8 219(b)(1) of the Internal Revenue Code of 1986 (re-
 9 lating to maximum amount of deduction) is amended
 10 by striking “\$2,000” and inserting “the applicable
 11 amount”.

12 (2) APPLICABLE AMOUNT.—Subsection (b) of
 13 section 219 of such Code is amended by adding at
 14 the end the following new paragraph:

15 “(5) APPLICABLE AMOUNT.—

16 “(A) IN GENERAL.—For purposes of para-
 17 graph (1), the term ‘applicable amount’
 18 means—

19 “(i) for any taxable year beginning in
 20 1997, \$2,500,

21 “(ii) for any taxable year beginning
 22 after 1997 and before 2006, the applicable
 23 amount determined under this paragraph
 24 for the preceding taxable year, increased
 25 by \$500, and

1 “(iii) for any taxable year beginning
2 after 2005, \$7,000.

3 “(B) INFLATION ADJUSTMENT.—In the
4 case of a taxable year beginning in a calendar
5 year after 2006, the \$7,000 amount contained
6 in subparagraph (A)(iii) shall be increased by
7 an amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment
10 under section 1(f)(3) for the calendar year
11 in which the taxable year begins, deter-
12 mined by substituting ‘calendar year 2005’
13 for ‘calendar year 1992’ in subparagraph
14 (B) thereof.

15 If any amount as adjusted under the preceding
16 sentence is not a multiple of \$10, such amount
17 shall be rounded to the nearest multiple of
18 \$10.”

19 (b) INCREASE OF AMOUNTS AT WHICH PHASE-OUT
20 OF DEDUCTION FOR IRA CONTRIBUTIONS BEGINS.—

21 (1) IN GENERAL.—Clauses (i) and (ii) of sec-
22 tion 219(g)(3)(B) of such Code (relating to limita-
23 tion on deduction for active participants in certain
24 pension plans) are amended to read as follows:

1 “(i) in the case of a taxpayer filing a
2 joint return—

3 “(I) for taxable years beginning
4 in 1997, \$50,000,

5 “(II) for taxable years beginning
6 after 1997 and before 2003, the appli-
7 cable dollar amount determined under
8 this subclause for the preceding tax-
9 able year, increased by \$10,000, and

10 “(III) for taxable years beginning
11 after 2002, \$110,000.

12 “(ii) in the case of any other taxpayer
13 (other than a married individual filing a
14 separate return)—

15 “(I) for taxable years beginning
16 in 1997, \$30,000,

17 “(II) for taxable years beginning
18 after 1997 and before 2003, the appli-
19 cable dollar amount determined under
20 this subclause for the preceding tax-
21 able year, increased by \$5,000, and

22 “(III) for taxable years beginning
23 after 2002, \$60,000, and”

1 (2) INFLATION ADJUSTMENT.—Paragraph (3)
2 of section 219(g) of such Code is amended by adding
3 at the end the following new subparagraph:

4 “(C) INFLATION ADJUSTMENT.—In the
5 case of a taxable year beginning in a calendar
6 year after 2003, the \$110,000 amount con-
7 tained in subparagraph (B)(i)(III) and the
8 \$60,000 amount contained in subparagraph
9 (B)(ii)(III) shall each be increased by an
10 amount equal to—

11 “(i) such dollar amount, multiplied by

12 “(ii) the cost-of-living adjustment
13 under section 1(f)(3) for the calendar year
14 in which the taxable year begins, deter-
15 mined by substituting ‘calendar year 2004’
16 for ‘calendar year 1992’ in subparagraph
17 (B) thereof.

18 If any amount as adjusted under the preceding
19 sentence is not a multiple of \$100, such amount
20 shall be rounded to the nearest multiple of
21 \$100.”

22 (c) CONFORMING AMENDMENTS.—

23 (1) Paragraph (1) of section 408(a) of such
24 Code is amended by striking “\$2,000” and inserting

1 “the applicable amount (as in effect under section
2 219(b) for such taxable year)”.

3 (2) Subparagraph (B) of section 408(b)(2) of
4 such Code is amended by striking “\$2,000” and in-
5 serting “the applicable amount in effect under sec-
6 tion 219(b) for the taxable year of such individual”.

7 (3) Subsection (b) of section 408 of such Code
8 is amended in the last sentence by striking “\$2,000”
9 and inserting “the applicable amount in effect under
10 section 219(b) for such taxable year”.

11 (4) Subparagraph (A) of section 408(d)(5) of
12 such Code is amended by striking “dollar amount”
13 and inserting “applicable amount”.

14 (5) Subsection (j) of section 408 of such Code
15 is amended by striking “\$2,000” and inserting “ap-
16 plicable”.

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 1996.

20 **SEC. 2. PENALTY-FREE DISTRIBUTIONS FROM INDIVIDUAL**
21 **RETIREMENT PLANS, 401(k) PLANS, ETC.**

22 (a) DISTRIBUTIONS RELATED TO FIRST HOMES,
23 EDUCATION, OR ADOPTION.—

24 (1) IN GENERAL.—Paragraph (2) of section
25 72(t) (relating to exceptions to 10-percent additional

1 tax on early distributions from qualified retirement
 2 plans) is amended by adding at the end the following
 3 new subparagraph:

4 “(E) CERTAIN DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT PLANS, 401(k) PLANS,
 5 ETC.—Distributions to an individual from an
 6 individual retirement plan, or from amounts attributable to employer contributions made pursuant to elective deferrals described in subparagraph (A) or (C) of section 402(g)(3) or section
 7 501(c)(18)(D)(iii), to the extent such distributions do not exceed the sum of—
 8

9 “(i) qualified first-time homebuyer
 10 distributions (as defined in paragraph (7))
 11 made during the taxable year,
 12

13 “(ii) qualified education expenses (as
 14 defined in paragraph (8)) of the taxpayer
 15 for the taxable year, and
 16

17 “(iii) qualified adoption expenses (as
 18 defined in section 23(d), determined without regard to section 23(d)(2)(B)) paid or
 19 incurred by the taxpayer during the taxable year.”
 20

21 (2) DEFINITIONS.—Section 72(t) is amended
 22 by adding at the end the following new paragraphs:
 23
 24
 25

1 “(7) QUALIFIED FIRST-TIME HOMEBUYER DIS-
2 TRIBUTIONS.—For purposes of paragraph
3 (2)(E)(i)—

4 “(A) IN GENERAL.—The term ‘qualified
5 first-time homebuyer distribution’ means any
6 payment or distribution received by an individ-
7 ual to the extent such payment or distribution
8 is used by the individual before the close of the
9 60th day after the day on which such payment
10 or distribution is received to pay qualified ac-
11 quisition costs with respect to a principal resi-
12 dence of a first-time homebuyer who is such in-
13 dividual, the spouse of such individual, or any
14 child, grandchild, or ancestor of such individual
15 or the individual’s spouse.

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

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

1 “(i) FIRST-TIME HOMEBUYER.—The
2 term ‘first-time homebuyer’ means any in-
3 dividual if—

4 “(I) such individual (and if mar-
5 ried, such individual’s spouse) had no
6 present ownership interest in a prin-
7 cipal residence during the 2-year pe-
8 riod ending on the date of acquisition
9 of the principal residence to which
10 this paragraph applies, and

11 “(II) subsection (h) or (k) of sec-
12 tion 1034 did not suspend the run-
13 ning of any period of time specified in
14 section 1034 with respect to such in-
15 dividual on the day before the date
16 the distribution is applied pursuant to
17 subparagraph (A).

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

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

23 “(I) on which a binding contract
24 to acquire the principal residence to

1 which subparagraph (A) applies is en-
2 tered into, or

3 “(II) on which construction or re-
4 construction of such a principal resi-
5 dence is commenced.

6 “(D) SPECIAL RULE WHERE DELAY IN AC-
7 QUISSION.—If any distribution from any indi-
8 vidual retirement plan fails to meet the require-
9 ments of subparagraph (A) solely by reason of
10 a delay or cancellation of the purchase or con-
11 struction of the residence, the amount of the
12 distribution may be contributed to an individual
13 retirement plan as provided in section
14 408(d)(3)(A)(i) (determined by substituting
15 ‘120 days’ for ‘60 days’ in such section), except
16 that—

17 “(i) section 408(d)(3)(B) shall not be
18 applied to such contribution, and

19 “(ii) such amount shall not be taken
20 into account in determining whether sec-
21 tion 408(d)(3)(A)(i) applies to any other
22 amount.

23 “(8) QUALIFIED EDUCATION EXPENSES.—For
24 purposes of paragraph (2)(E)(ii)—

1 “(A) IN GENERAL.—The term ‘qualified
2 higher education expenses’ means tuition, fees,
3 books, supplies, and equipment required for the
4 education of—

5 “(i) the taxpayer,

6 “(ii) the taxpayer’s spouse, or

7 “(iii) any child (as defined in section
8 151(c)(3)), grandchild, or ancestor of the
9 taxpayer or the taxpayer’s spouse,
10 whether or not such education takes place at an
11 eligible educational institution (as defined in
12 section 135(c)(3)).

13 “(B) COORDINATION WITH SAVINGS BOND
14 PROVISIONS.—The amount of qualified edu-
15 cation expenses for any taxable year shall be re-
16 duced by any amount excludable from gross in-
17 come under section 135.”

18 (3) CONFORMING AMENDMENT.—Subparagraph
19 (B) of section 72(t)(2) is amended by striking “or
20 (D)” and inserting “, (D), or (E)”.

21 (b) PENALTY-FREE DISTRIBUTIONS FOR CERTAIN
22 UNEMPLOYED INDIVIDUALS NOT LIMITED TO HEALTH
23 INSURANCE COSTS AND ALLOWED FROM 401(k) PLANS,
24 ETC.—Subparagraph (D) of section 72(t)(2) is amend-
25 ed—

1 (1) in clause (i), by inserting “, or from
 2 amounts attributable to employer contributions
 3 made pursuant to elective deferrals described in sub-
 4 paragraph (A) or (C) of section 402(g)(3) or section
 5 501(c)(18)(D)(iii),” after “individual retirement
 6 plan”,

7 (2) in clause (i), by inserting “and” at the end
 8 of subclause (I), by striking “, and” at the end of
 9 subclause (II) and inserting a period, and by strik-
 10 ing subclause (III), and

11 (3) by striking “FOR HEALTH INSURANCE PRE-
 12 MIUMS” in the heading.

13 (c) UNLIMITED PENALTY-FREE DISTRIBUTIONS FOR
 14 MEDICAL CARE AND EXPANDED DEFINITION OF DE-
 15 PENDENTS FOR PURPOSES OF SUCH DISTRIBUTIONS.—
 16 Subparagraph (B) of section 72(t)(2) is amended by strik-
 17 ing “medical care” and all that follows and inserting
 18 “medical care, determined—

19 “(i) without regard to whether the
 20 employee itemizes deductions for such tax-
 21 able year, and

22 “(ii) in the case of a distribution from
 23 an individual retirement plan, or from
 24 amounts attributable to employer contribu-
 25 tions made pursuant to elective deferrals

1 described in subparagraph (A) or (C) of
2 section 402(g)(3) or section
3 501(c)(18)(D)(iii)—

4 “(I) without regard to whether or
5 not such expenses exceed 7.5 percent
6 of adjusted gross income, and

7 “(II) by treating an individual’s
8 dependents as including all children
9 and grandchildren of the individual
10 (or of such individual’s spouse), and
11 all ancestors of the individual (or of
12 such individual’s spouse).”

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to payments and distributions in
15 taxable years beginning after December 31, 1996.

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