

105TH CONGRESS  
1ST SESSION

# H. R. 984

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 6, 1997

Mr. McCRERY 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 1997”.

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  
10       additional itemized deductions for individuals) is amended

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

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

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

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

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

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

19 “(B) The trustee is a bank (as defined in  
20 section 408(n)) or another person who dem-  
21 onstrates to the satisfaction of the Secretary  
22 that the manner in which that person will ad-  
23 minister the trust will be consistent with the re-  
24 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 a 1st-time  
2 homebuyer from an individual investment ac-  
3 count to the extent such payment or distribu-  
4 tion is used by the individual within 60 days  
5 to pay qualified acquisition costs with respect  
6 to a principal residence for such individual.

7 “(B) DOLLAR LIMITATION.—The aggre-  
8 gate amount which may be treated as qualified  
9 1st-time homebuyer distributions for all taxable  
10 years shall not exceed \$15,000.

11 “(C) BASIS REDUCTION.—The basis of any  
12 principal residence described in subparagraph  
13 (A) shall be reduced by the amount of any  
14 qualified 1st-time homebuyer distribution.

15 “(D) DEFINITIONS.—For purposes of this  
16 paragraph—

17 “(i) QUALIFIED ACQUISITION  
18 COSTS.—The term ‘qualified acquisition  
19 costs’ means the costs of acquiring, con-  
20 structing, or reconstructing a residence.  
21 Such term includes any usual or reason-  
22 able settlement, financing, or other closing  
23 costs.

1                   “(ii) 1ST-TIME HOMEBUYER.—The  
2                   term ‘1st-time homebuyer’ means any indi-  
3                   vidual 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                   “(iii) PRINCIPAL RESIDENCE.—The  
10                  term ‘principal residence’ has the same  
11                  meaning as when used in section 1034.

12               “(3) TRANSFER OF ACCOUNT INCIDENT TO DI-  
13               VORCE.—The transfer of an individual’s interest in  
14               an individual investment account to his former  
15               spouse under a divorce decree or under a written in-  
16               strument incident to a divorce shall not be consid-  
17               ered a taxable transfer made by such individual not-  
18               withstanding any other provision of this subtitle, and  
19               such interest at the time of the transfer shall be  
20               treated as an individual investment account of such  
21               spouse and not of such individual. Thereafter such  
22               account shall be treated, for purposes of this sub-  
23               title, as maintained for the benefit of such spouse.

24               “(d) TAX TREATMENT OF ACCOUNTS.—

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

9           “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE  
10      INDIVIDUAL ENGAGES IN PROHIBITED TRANS-  
11      ACTION.—

12           “(A) IN GENERAL.—If, during any taxable  
13      year of the individual for whose benefit the indi-  
14      vidual investment account is established, that  
15      individual engages in any transaction prohibited  
16      by section 4975 with respect to the account, the  
17      account shall cease to be an individual invest-  
18      ment account as of the first day of that taxable  
19      year.

20           “(B) ACCOUNT TREATED AS DISTRIBUTING  
21      ALL ITS ASSETS.—In any case in which any ac-  
22      count ceases to be an individual investment ac-  
23      count by reason of subparagraph (A) on the  
24      first day of any taxable year, paragraph (1) of  
25      subsection (c) shall be applied as if there were

1 a distribution on such first day in an amount  
2 equal to the fair market value (on such first  
3 day) of all assets in the account (on such first  
4 day).

5 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-  
6 RITY.—If, during any taxable year, an individual for  
7 whose benefit an individual investment account is es-  
8 tablished uses the account or any portion thereof as  
9 security for a loan, the portion so used shall be  
10 treated as distributed to that individual.

11 “(4) ROLLOVER CONTRIBUTIONS.—Subsection  
12 (c)(1) shall not apply to any amount paid or distrib-  
13 uted out of an individual investment account to the  
14 individual for whose benefit the account is main-  
15 tained if such amount is paid into another individual  
16 investment account for the benefit of such individual  
17 not later than the 60th day after the day on which  
18 he receives the payment or distribution.

19 “(e) COST-OF-LIVING ADJUSTMENT.—

20 “(1) IN GENERAL.—In the case of any taxable  
21 year beginning in a calendar year after 1997, the  
22 \$15,000 amount contained in subsection (c)(2)(B)  
23 shall be increased by an amount equal to—

24 “(A) such dollar amount, multiplied by

1           “(B) the cost-of-living adjustment deter-  
2           mined under section 1(f)(3) for the calendar  
3           year in which the taxable year begins.

4           “(2) ROUNDING.—If any dollar amount (as in-  
5           creased under paragraph (1)) is not a multiple of  
6           \$10, such dollar amount shall be increased to near-  
7           est multiple of \$10 (or, if such dollar amount is a  
8           multiple of \$5 and not of \$10, such dollar amount  
9           shall be increased to next higher multiple of \$10).

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



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

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

16               “(17) INDIVIDUAL INVESTMENT ACCOUNT CON-  
17   TRIBUTIONS.—The deduction allowed by section 221  
18   (relating to individual investment accounts).”

19       (c) INDIVIDUAL INVESTMENT ACCOUNTS EXEMPT  
20   FROM ESTATE TAX.—Part III of subchapter A of chapter  
21   11 of such Code is amended by redesignating section 2046  
22   as section 2047 and by inserting after section 2045 the  
23   following new section:

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

2 “Notwithstanding any other provision of law, there  
3 shall be excluded from the value of the gross estate of the  
4 value of any individual investment account (as defined in  
5 section 221(b)). Section 1014 shall not apply to such ac-  
6 counts.”

7 (d) NONRECOGNITION OF GAIN ON SALE OF PRIN-  
8 CIPAL RESIDENCE WHERE AMOUNT EQUAL TO OTHER-  
9 WISE TAXABLE GAIN DEPOSITED INTO INDIVIDUAL IN-  
10 VESTMENT ACCOUNT.—Part III of subchapter B of chap-  
11 ter 1 of such Code is amended by inserting after section  
12 121 the following new section:

13 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**  
14 **RESIDENCE IF REINVESTMENT IN INDIVID-**  
15 **UAL INVESTMENT ACCOUNT.**

16 “(a) GENERAL RULE.—Gross income does not in-  
17 clude gain from the sale or exchange of property if, during  
18 the 5-year period ending on the date of the sale or ex-  
19 change, such property has been owned and used by the  
20 taxpayer as his principal residence for periods aggregating  
21 3 years or more.

22 “(b) LIMITATION.—The amount of gain excluded  
23 from gross income under subsection (a) shall not exceed  
24 the amount paid in cash (during the 1-year period begin-  
25 ning on the date of the sale or exchange) to an individual

1 investment account (as defined in section 221(b)) estab-  
2 lished for the benefit of the taxpayer or his spouse.

3 “(c) CERTAIN RULES ON OWNERSHIP AND USE TO  
4 APPLY.—Rules similar to the rules of section 121(d) shall  
5 apply for purposes of determining ownership and use  
6 under this section.”

7 (e) TAX ON PROHIBITED TRANSACTIONS.—Section  
8 4975 of such Code (relating to prohibited transactions)  
9 is amended—

10 (1) by adding at the end of subsection (c) the  
11 following new paragraph:

12 “(5) SPECIAL RULE FOR INDIVIDUAL INVEST-  
13 MENT ACCOUNTS.—An individual for whose benefit  
14 an individual investment account is established shall  
15 be exempt from the tax imposed by this section with  
16 respect to any transaction concerning such account  
17 (which would otherwise be taxable under this sec-  
18 tion) if, with respect to such transaction, the ac-  
19 count ceases to be an individual investment account  
20 by reason of the application of section 221(d)(2)(A)  
21 to such account.”; and

22 (2) in subsection (e)(1), by striking “or” at the  
23 end of subparagraph (D), by redesignating subpara-  
24 graph (E) as subparagraph (F), and by inserting the  
25 following new subparagraph after subparagraph (D):

1                   “(E) an individual investment account de-  
2                   scribed in section 221(b), or”.

3           (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
4 INVESTMENT ACCOUNTS.—Section 6693 of such Code (re-  
5 lating to failure to provide reports on individual retirement  
6 account or annuities) is amended—

7                   (1) by inserting “**OR ON INDIVIDUAL IN-**  
8                   **VESTMENT ACCOUNTS**” after “**ANNUITIES**” in  
9                   the heading of such section; and

10                   (2) in subsection (a)(2), by striking “and” at  
11                   the end of subparagraph (A), by striking the period  
12                   at the end of subparagraph (B) and inserting “,  
13                   and”, and by adding at the end the following new  
14                   paragraph:

15                               “(C) section 221(g) (relating to individual  
16                   investment accounts).”

17           (g) ADJUSTMENT OF BASIS OF RESIDENCE AC-  
18 QUIRED THROUGH USE OF ACCOUNT.—Subsection (a) of  
19 section 1016 of such Code is amended by striking “and”  
20 at the end of paragraph (25), by striking the period at  
21 the end of paragraph (26) and inserting “, and”, and by  
22 adding at the end thereof the following new paragraph:

1 “(27) to the extent provided in section  
 2 221(c)(2)(C), in the case of a residence the acquisi-  
 3 tion of which was made in whole or in part with  
 4 funds from an individual investment account.”

5 (h) CLERICAL AMENDMENTS.—

6 (1) The table of sections for part III of sub-  
 7 chapter B of chapter 1 of such Code is amended by  
 8 inserting after the item relating to section 121 the  
 9 following new item:

“Sec. 121A. Exclusion of gain from sale of principal residence if  
 reinvestment in individual investment account.”

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

“Sec. 221. Individual investment accounts.

“Sec. 222. Cross reference.”

14 (3) The table of sections for part III of sub-  
 15 chapter A of chapter 11 of such Code is amended by  
 16 striking the item relating to section 2046 and insert-  
 17 ing the following new items:

“Sec. 2046. Individual investment accounts.

“Sec. 2047. Disclaimers.”

18 (4) The table of sections for subchapter B of  
 19 chapter 68 of such Code is amended by striking the  
 20 item relating to section 6693 and inserting the fol-  
 21 lowing:

“Sec. 6693. Failure to provide reports on individual retirement accounts or annuities or on individual investment accounts; penalties relating to designated non-deductible contributions.”

1       (i) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1996.

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