

105TH CONGRESS
1ST SESSION

S. 197

To amend the Internal Revenue Code of 1986 to encourage savings and investment through individual retirement accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 22, 1997

Mr. ROTH (for himself, Mr. LOTT, Mr. BREAUX, Mr. GRASSLEY, Mr. NICKLES, Mr. MURKOWSKI, Mr. ABRAHAM, Mr. KYL, Mr. HELMS, Mr. D'AMATO, Mr. CRAIG, Mrs. HUTCHISON, Mr. McCONNELL, Mr. THOMAS, Mr. SMITH of Oregon, Mr. DEWINE, Mr. INHOFE, Mr. BRYAN, Mr. ROBERTS, Ms. MIKULSKI, Mr. SMITH of New Hampshire, Mr. HATCH, Mr. BENNETT, Mr. KEMPTHORNE, Mr. INOUE, Mr. ENZI, Mr. FORD, Mr. BURNS, Mr. LIEBERMAN, Mr. HAGEL, Mr. GRAMM, Mr. DODD, Ms. COLLINS, Mr. GREGG, Mr. GRAMS, Mr. BOND, and Mr. KOHL) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to encourage savings and investment through individual retirement 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; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Savings and Investment Incentive Act of 1997”.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

TITLE I—RETIREMENT SAVINGS INCENTIVES

Subtitle A—Restoration of IRA Deduction

SEC. 101. RESTORATION OF IRA DEDUCTION.

(a) MODIFICATIONS OF RESTRICTIONS ON ACTIVE PARTICIPANTS.—

(1) INCREASE IN INCOME LIMITS APPLICABLE TO ACTIVE PARTICIPANTS.—Subparagraph (B) of section 219(g)(3) (relating to applicable dollar amount) is amended to read as follows:

“(B) APPLICABLE DOLLAR AMOUNT.—The term ‘applicable dollar amount’ means the following:

“(i) In the case of a taxpayer filing a joint return:

“For taxable years beginning in:	The applicable dollar amount is:
1997	\$65,000
1998	\$90,000
1999	\$115,000
2000	\$140,000.

1 “(ii) In the case of any other taxpayer
 2 (other than a married individual filing a
 3 separate return):

“For taxable years beginning in:	The applicable dollar amount is:
1997	\$50,000
1998	\$75,000
1999	\$100,000
2000	\$125,000.

4 “(iii) In the case of a married individ-
 5 ual filing a separate return, zero.”.

6 (2) LIMITATIONS FOR ACTIVE PARTICIPATION
 7 NOT BASED ON SPOUSE’S PARTICIPATION.—Para-
 8 graph (1) of section 219(g) (relating to limitation on
 9 deduction for active participants in certain pension
 10 plans) is amended by striking “or the individual’s
 11 spouse”.

12 (b) REPEAL OF RESTRICTIONS ON ACTIVE
 13 PARTICIPANTS.—

14 (1) IN GENERAL.—Section 219 (relating to de-
 15 duction for retirement savings), as amended by sec-
 16 tion 102, is amended by striking subsection (g) and
 17 by redesignating subsections (h) and (i) as sub-
 18 section (g) and (h), respectively.

19 (2) TECHNICAL AND CONFORMING AMEND-
 20 MENTS.—

21 (A) Subsection (f) of section 219 is amend-
 22 ed by striking paragraph (7).

1 (B) Paragraph (5) of section 408(d) is
 2 amended by striking the last sentence.

3 (C) Section 408(o) is amended by adding
 4 at the end the following new paragraph:

5 “(5) TERMINATION.—This subsection shall not
 6 apply to any designated nondeductible contribution
 7 for any taxable year beginning after December 31,
 8 2000.”.

9 (D) Sections 408A(c)(2)(A) and
 10 4973(b)(2)(B)(ii), as added by section 111, are
 11 each amended by striking “(computed without
 12 regard to subsection (g) of such section)”.

13 (c) EFFECTIVE DATES.—

14 (1) IN GENERAL.—The amendments made by
 15 subsection (a) shall apply to taxable years beginning
 16 after December 31, 1996.

17 (2) TERMINATION.—The amendments made by
 18 subsection (b) shall apply to taxable years beginning
 19 after December 31, 2000.

20 **SEC. 102. INFLATION ADJUSTMENT FOR DEDUCTIBLE**
 21 **AMOUNT.**

22 (a) IN GENERAL.—Section 219 is amended by redес-
 23 ignating subsection (h) as subsection (i) and by inserting
 24 after subsection (g) the following new subsection:

1 “(h) COST-OF-LIVING ADJUSTMENTS.—In the case
 2 of any taxable year beginning in a calendar year after
 3 1997, the \$2,000 amount under subsection (b)(1)(A) shall
 4 be increased by an amount equal to the product of \$2,000
 5 and the cost-of-living adjustment determined under sec-
 6 tion 1(f)(3) for the calendar year in which the taxable year
 7 begins, except that subparagraph (B) thereof shall be ap-
 8 plied by substituting ‘1996’ for ‘1992’. If the amount to
 9 which \$2,000 would be increased under the preceding sen-
 10 tence is not a multiple of \$500, such amount shall be
 11 rounded to the next lower multiple of \$500.”

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 408(a)(1) is amended by striking
 14 “in excess of \$2,000 on behalf of any individual”
 15 and inserting “on behalf of any individual in excess
 16 of the amount in effect for such taxable year under
 17 section 219(b)(1)(A)”.

18 (2) Section 408(b)(2)(B) is amended by strik-
 19 ing “\$2,000” and inserting “the dollar amount in
 20 effect under section 219(b)(1)(A)”.

21 (3) Section 408(j) is amended by striking
 22 “\$2,000”.

1 **SEC. 103. CERTAIN COINS AND BULLION NOT TREATED AS**
 2 **COLLECTIBLES.**

3 (a) IN GENERAL.—Paragraph (3) of section 408(m)
 4 (relating to exception for certain coins) is amended to read
 5 as follows:

6 “(3) EXCEPTION FOR CERTAIN COINS AND BUL-
 7 LION.—For purposes of this subsection, the term
 8 ‘collectible’ shall not include—

9 “(A) any coin certified by a recognized
 10 grading service and traded on a nationally rec-
 11 ognized electronic network, or listed by a recog-
 12 nized wholesale reporting service, and—

13 “(i) which is or was at any time legal
 14 tender in the country of issuance, or

15 “(ii) issued under the laws of any
 16 State, and

17 “(B) any gold, silver, platinum, or palla-
 18 dium bullion (whether fabricated in the form of
 19 a coin or otherwise) of a fineness equal to or
 20 exceeding the minimum fineness required for
 21 metals which may be delivered in satisfaction of
 22 a regulated futures contract subject to regula-
 23 tion by the Commodity Futures Trading Com-
 24 mission under the Commodity Exchange Act,

1 if such coin or bullion is in the physical possession
 2 of a trustee described under subsection (a) of this
 3 section.”

4 (b) EFFECTIVE DATE.—The amendment made by
 5 this section shall apply to taxable years beginning after
 6 December 31, 1996.

7 **Subtitle B—Nondeductible Tax-** 8 **Free IRAs**

9 **SEC. 111. ESTABLISHMENT OF NONDEDUCTIBLE TAX-FREE** 10 **INDIVIDUAL RETIREMENT ACCOUNTS.**

11 (a) IN GENERAL.—Subpart A of part I of subchapter
 12 D of chapter 1 (relating to pension, profit-sharing, stock
 13 bonus plans, etc.) is amended by inserting after section
 14 408 the following new section:

15 **“SEC. 408A. IRA PLUS ACCOUNTS.**

16 “(a) GENERAL RULE.—Except as provided in this
 17 section, an IRA Plus account shall be treated for purposes
 18 of this title in the same manner as an individual retire-
 19 ment plan.

20 “(b) IRA PLUS ACCOUNT.—For purposes of this
 21 title, the term ‘IRA Plus account’ means an individual re-
 22 tirement plan (as defined in section 7701(a)(37)) which
 23 is designated (in such manner as the Secretary may pre-
 24 scribe) at the time of establishment of the plan as an IRA
 25 Plus account.

1 “(c) TREATMENT OF CONTRIBUTIONS.—

2 “(1) NO DEDUCTION ALLOWED.—No deduction
3 shall be allowed under section 219 for a contribution
4 to an IRA Plus account.

5 “(2) CONTRIBUTION LIMIT.—The aggregate
6 amount of contributions for any taxable year to all
7 IRA Plus accounts maintained for the benefit of an
8 individual shall not exceed the excess (if any) of—

9 “(A) the maximum amount allowable as a
10 deduction under section 219 with respect to
11 such individual for such taxable year (computed
12 without regard to subsection (g) of such sec-
13 tion), over

14 “(B) the amount so allowed.

15 “(3) CONTRIBUTIONS PERMITTED AFTER AGE
16 70½.—Contributions to an IRA Plus account may be
17 made even after the individual for whom the account
18 is maintained has attained age 70½.

19 “(4) MANDATORY DISTRIBUTION RULES NOT
20 TO APPLY, ETC.—

21 “(A) IN GENERAL.—Except as provided in
22 subparagraph (B), subsections (a)(6) and (b)(3)
23 of section 408 (relating to required distribu-
24 tions) and section 4974 (relating to excise tax

1 on certain accumulations in qualified retirement
 2 plans) shall not apply to any IRA Plus account.

3 “(B) POST-DEATH DISTRIBUTIONS.—Rules
 4 similar to the rules of section 401(a)(9) (other
 5 than subparagraph (A) thereof) shall apply for
 6 purposes of this section.

7 “(5) ROLLOVER CONTRIBUTIONS.—

8 “(A) IN GENERAL.—No rollover contribu-
 9 tion may be made to an IRA Plus account un-
 10 less it is a qualified rollover contribution.

11 “(B) COORDINATION WITH LIMIT.—A
 12 qualified rollover contribution shall not be taken
 13 into account for purposes of paragraph (2).

14 “(6) TIME WHEN CONTRIBUTIONS MADE.—For
 15 purposes of this section, the rule of section 219(f)(3)
 16 shall apply.

17 “(d) DISTRIBUTION RULES.—For purposes of this
 18 title—

19 “(1) GENERAL RULES.—

20 “(A) EXCLUSIONS FROM GROSS INCOME.—
 21 Any qualified distribution from an IRA Plus ac-
 22 count shall not be includible in gross income.

23 “(B) NONQUALIFIED DISTRIBUTIONS.—In
 24 applying section 72 to any distribution from an

1 IRA Plus account which is not a qualified dis-
 2 tribution, such distribution shall be treated as
 3 made from contributions to the IRA Plus ac-
 4 count to the extent that such distribution, when
 5 added to all previous distributions from the
 6 IRA Plus account, does not exceed the aggre-
 7 gate amount of contributions to the IRA Plus
 8 account. For purposes of the preceding sen-
 9 tence, all IRA Plus accounts maintained for the
 10 benefit of an individual shall be treated as 1
 11 account.

12 “(C) EXCEPTION FROM PENALTY TAX.—
 13 Section 72(t) shall not apply to any qualified
 14 distribution from an IRA Plus account.

15 “(2) QUALIFIED DISTRIBUTION.—For purposes
 16 of this subsection—

17 “(A) IN GENERAL.—The term ‘qualified
 18 distribution’ means any payment or
 19 distribution—

20 “(i) made on or after the date on
 21 which the individual attains age 59½,

22 “(ii) made to a beneficiary (or to the
 23 estate of the individual) on or after the
 24 death of the individual,

1 “(iii) attributable to the individual’s
 2 being disabled (within the meaning of sec-
 3 tion 72(m)(7)), or

4 “(iv) which is a qualified special pur-
 5 pose distribution.

6 “(B) CERTAIN DISTRIBUTIONS WITHIN 5
 7 YEARS.—A payment or distribution shall not be
 8 treated as a qualified distribution under clause
 9 (i) of subparagraph (A) if—

10 “(i) it is made within the 5-taxable
 11 year period beginning with the 1st taxable
 12 year for which the individual made a con-
 13 tribution to an IRA Plus account (or such
 14 individual’s spouse made a contribution to
 15 an IRA Plus account) established for such
 16 individual, or

17 “(ii) in the case of a payment or dis-
 18 tribution properly allocable (as determined
 19 in the manner prescribed by the Secretary)
 20 to a qualified rollover contribution (or in-
 21 come allocable thereto), it is made within
 22 the 5-taxable year period beginning with
 23 the taxable year in which the rollover con-
 24 tribution was made.

1 Clause (ii) shall not apply to a qualified rollover
2 contribution from an IRA plus account.

3 “(3) ROLLOVERS.—

4 “(A) IN GENERAL.—Paragraph (1) shall
5 not apply to any distribution which is trans-
6 ferred in a qualified rollover contribution to an
7 IRA Plus account.

8 “(B) INCOME INCLUSION FOR ROLLOVERS
9 FROM NON-PLUS IRAS.—In the case of any
10 qualified rollover contribution from an individ-
11 ual retirement plan (other than an IRA Plus
12 account) to an IRA Plus account established for
13 the benefit of the payee or distributee, as the
14 case may be—

15 “(i) sections 72(t) and 408(d)(3) shall
16 not apply, and

17 “(ii) in any case where such contribu-
18 tion is made before January 1, 1999, any
19 amount required to be included in gross in-
20 come by reason of this paragraph shall be
21 so included ratably over the 4-taxable year
22 period beginning with the taxable year in
23 which the payment or distribution is made.

24 “(C) ADDITIONAL REPORTING REQUIRE-
25 MENTS.—The Secretary shall require that

1 trustees of IRA Plus accounts, trustees of indi-
 2 vidual retirement plans, or both, whichever is
 3 appropriate, shall include such additional infor-
 4 mation in reports required under section 408(i)
 5 as is necessary to ensure that amounts required
 6 to be included in gross income under subpara-
 7 graph (B) are so included.

8 “(4) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of this section, the term ‘quali-
 9 fied special purpose distribution’ means any distribu-
 10 tion to which subparagraph (B), (D), or (E) of sec-
 11 tion 72(t)(2) applies.
 12

13 “(e) QUALIFIED ROLLOVER CONTRIBUTION.—For
 14 purposes of this section—

15 “(1) IN GENERAL.—The term ‘qualified rollover
 16 contribution’ means a rollover contribution to an
 17 IRA Plus account from another such account, or
 18 from an individual retirement plan, but only if such
 19 rollover contribution meets the requirements of sec-
 20 tion 408(d)(3). For purposes of section
 21 408(d)(3)(B), there shall be disregarded any quali-
 22 fied rollover contribution from an individual retire-
 23 ment plan to an IRA Plus account.

24 “(2) CONVERSIONS.—The conversion of an indi-
 25 vidual retirement plan to an IRA Plus account shall

1 be treated as if it were a qualified rollover
 2 contribution.”

3 (b) EXCESS DISTRIBUTIONS TAX NOT TO APPLY.—

4 (1) Subparagraph (A) of section 4980A(d)(3) is
 5 amended by inserting “(other than IRA Plus ac-
 6 counts described in section 408A(b))” after “retire-
 7 ment plans”.

8 (2) Section 4980A(e)(1) is amended by adding
 9 at the end the following flush sentence:

10 “Such term shall not include any amount distributed
 11 from an IRA Plus account or any qualified rollover
 12 contribution (as defined in section 408A(e)) from an
 13 individual retirement plan to an IRA Plus account.”

14 (c) EXCESS CONTRIBUTIONS.—Section 4973(b) is
 15 amended to read as follows:

16 “(b) EXCESS CONTRIBUTIONS.—For purposes of this
 17 section—

18 “(1) IN GENERAL.—In the case of individual re-
 19 tirement accounts or individual retirement annuities,
 20 the term ‘excess contributions’ means the sum of—

21 “(A) the amount determined under para-
 22 graph (2) for the taxable year, plus

23 “(B) the carryover amount determined
 24 under paragraph (3) for the taxable year.

1 “(2) CURRENT YEAR.—The amount determined
2 under this paragraph for any taxable year is an
3 amount equal to the sum of—

4 “(A) the excess (if any) of—

5 “(i) the amount contributed for the
6 taxable year to the accounts or for the an-
7 nuities or bonds (other than IRA Plus ac-
8 counts), over

9 “(ii) the amount allowable as a deduc-
10 tion under section 219 for the taxable
11 year, plus

12 “(B) the excess (if any) of—

13 “(i) the amount described in clause (i)
14 (taking into account contributions to IRA
15 Plus accounts) contributed for the taxable
16 year, over

17 “(ii) the amount allowable as a deduc-
18 tion under section 219 for the taxable year
19 (computed without regard to subsection (g)
20 of such section).

21 “(3) CARRYOVER AMOUNT.—The carryover
22 amount determined under this paragraph for any
23 taxable year is the amount determined under para-
24 graph (2) for the preceding taxable year, reduced by
25 the sum of—

1 “(A) the distributions out of the account
 2 for the taxable year which were included in the
 3 gross income of the payee under section
 4 408(d)(1),

5 “(B) the distributions out of the account
 6 for the taxable year to which section 408(d)(5)
 7 applies, and

8 “(C) the excess (if any) of the amount de-
 9 termined under paragraph (2)(B)(ii) over the
 10 amount determined under paragraph (2)(B)(i).

11 “(4) SPECIAL RULES.—For purposes of this
 12 subsection—

13 “(A) ROLLOVER CONTRIBUTIONS.—Roll-
 14 over distributions described in sections 402(c),
 15 403(a)(4), 403(b)(8), 408(d)(3), and 408A(e)
 16 shall not be taken into account.

17 “(B) CONTRIBUTIONS RETURNED BEFORE
 18 DUE DATE.—Any contribution which is distrib-
 19 uted from an individual retirement plan in a
 20 distribution to which section 408(d)(4) applies
 21 shall not be taken into account.

22 “(C) EXCESS CONTRIBUTIONS TREATED AS
 23 CONTRIBUTIONS.—In applying paragraph

1 (3)(C), the determination as to amounts con-
 2 tributed for a taxable year shall be made with-
 3 out regard to section 219(f)(6).”

4 (d) SPOUSAL IRA.—Clause (ii) of section
 5 219(c)(1)(B) is amended to read as follows:

6 “(ii) the compensation includible in
 7 the gross income of such individual’s
 8 spouse for the taxable year reduced by—

9 “(I) the amount allowed as a de-
 10 duction under subsection (a) to such
 11 spouse for such taxable year, and

12 “(II) the amount of any contribu-
 13 tion on behalf of such spouse to an
 14 IRA Plus account under section 408A
 15 for such taxable year.”

16 (e) CONFORMING AMENDMENT.—The table of sec-
 17 tions for subpart A of part I of subchapter D of chapter
 18 1 is amended by inserting after the item relating to section
 19 408 the following new item:

 “Sec. 408A. IRA Plus accounts.”

20 (f) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply to taxable years beginning after
 22 December 31, 1996.

TITLE II—PENALTY-FREE DISTRIBUTIONS

**SEC. 201. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE
USED WITHOUT PENALTY TO PURCHASE
FIRST HOMES, TO PAY HIGHER EDUCATION
EXPENSES, WHEN UNEMPLOYED, OR TO PAY
MEDICAL EXPENSES OF RELATIVES.**

(a) FIRST HOMES AND EDUCATION.—

(1) IN GENERAL.—Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new subparagraph:

“(E) DISTRIBUTIONS FROM CERTAIN PLANS FOR FIRST HOME PURCHASES OR EDUCATIONAL EXPENSES.—Distributions to an individual from an 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 501(c)(18)(D)(iii)—

“(i) which are qualified first-time homebuyer distributions (as defined in paragraph (7)), or

1 “(ii) to the extent such distributions
 2 do not exceed the qualified higher edu-
 3 cation expenses (as defined in paragraph
 4 (8)) of the taxpayer for the taxable year.”

5 (2) DEFINITIONS.—Section 72(t) is amended
 6 by adding at the end the following new paragraphs:

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

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

22 “(B) QUALIFIED ACQUISITION COSTS.—
 23 For purposes of this paragraph, the term
 24 ‘qualified acquisition costs’ means the costs of

1 acquiring, constructing, or reconstructing a res-
 2 idence. Such term includes any usual or reason-
 3 able settlement, financing, or other closing
 4 costs.

5 “(C) FIRST-TIME HOMEBUYER; OTHER
 6 DEFINITIONS.—For purposes of this para-
 7 graph—

8 “(i) FIRST-TIME HOMEBUYER.—The
 9 term ‘first-time homebuyer’ means any in-
 10 dividual if—

11 “(I) such individual (and if mar-
 12 ried, such individual’s spouse) had no
 13 present ownership interest in a prin-
 14 cipal residence during the 2-year pe-
 15 riod ending on the date of acquisition
 16 of the principal residence to which
 17 this paragraph applies, and

18 “(II) subsection (h) or (k) of sec-
 19 tion 1034 did not suspend the run-
 20 ning of any period of time specified in
 21 section 1034 with respect to such in-
 22 dividual on the day before the date
 23 the distribution is applied pursuant to
 24 subparagraph (A).

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

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

6 “(I) on which a binding contract
 7 to acquire the principal residence to
 8 which subparagraph (A) applies is en-
 9 tered into, or

10 “(II) on which construction or re-
 11 construction of such a principal resi-
 12 dence is commenced.

13 “(D) SPECIAL RULE WHERE DELAY IN AC-
 14 QUISITION.—If any distribution from any indi-
 15 vidual retirement plan fails to meet the require-
 16 ments of subparagraph (A) solely by reason of
 17 a delay or cancellation of the purchase or con-
 18 struction of the residence, the amount of the
 19 distribution may be contributed to an individual
 20 retirement plan as provided in section
 21 408(d)(3)(A)(i) (determined by substituting
 22 ‘120 days’ for ‘60 days’ in such section), except
 23 that—

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

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

5 “(8) QUALIFIED HIGHER EDUCATION EX-
 6 PENSES.—For purposes of paragraph (2)(E)(ii)—

7 “(A) IN GENERAL.—The term ‘qualified
 8 higher education expenses’ means tuition, fees,
 9 books, supplies, and equipment required for the
 10 enrollment or attendance of—

11 “(i) the taxpayer,

12 “(ii) the taxpayer’s spouse, or

13 “(iii) any child (as defined in section
 14 151(c)(3)), grandchild, or ancestor of the
 15 taxpayer or the taxpayer’s spouse,
 16 at an eligible educational institution (as defined
 17 in section 135(c)(3)).

18 “(B) COORDINATION WITH SAVINGS BOND
 19 PROVISIONS.—The amount of qualified higher
 20 education expenses for any taxable year shall be
 21 reduced by any amount excludable from gross
 22 income under section 135.”

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

1 (b) PENALTY-FREE DISTRIBUTIONS FOR CERTAIN
 2 UNEMPLOYED INDIVIDUALS.—Subparagraph (D) of sec-
 3 tion 72(t)(2) is amended—

4 (1) in clause (i), by inserting “and” at the end
 5 of subclause (I), by striking “, and” at the end of
 6 subclause (II) and inserting a period, and by strik-
 7 ing subclause (III), and

8 (2) by striking “FOR HEALTH INSURANCE PRE-
 9 MIUMS” in the heading thereof.

10 (c) TREATMENT OF CERTAIN FAMILY MEMBERS AS
 11 DEPENDENTS FOR PURPOSES OF MEDICAL DISTRIBUTIONS.—Subparagraph (B) of section 72(t)(2) is amended
 12 by striking “medical care” and all that follows and insert-
 13 ing “medical care determined—

14 “(i) without regard to whether the
 15 employee itemizes deductions for such tax-
 16 able year, and

17 “(ii) by treating such employee’s de-
 18 pendants as including—

19 “(I) all children and grand-
 20 children of the employee or such em-
 21 ployee’s spouse, and

22 “(II) all ancestors of the em-
 23 ployee or such employee’s spouse.”.

24 (d) CONFORMING AMENDMENTS.—
 25

1 (1) Section 401(k)(2)(B)(i) is amended by
 2 striking “or” at the end of subclause (III), by strik-
 3 ing “and” at the end of subclause (IV) and inserting
 4 “or”, and by inserting after subclause (IV) the fol-
 5 lowing new subclause:

6 “(V) the date on which qualified
 7 first-time homebuyer distributions (as
 8 defined in section 72(t)(7)) or dis-
 9 tributions for qualified higher edu-
 10 cation expenses (as defined in section
 11 72(t)(8)) are made, and”.

12 (2) Section 403(b)(11) is amended by striking
 13 “or” at the end of subparagraph (A), by striking the
 14 period at the end of subparagraph (B) and inserting
 15 “, or”, and by inserting after subparagraph (B) the
 16 following new subparagraph:

17 “(C) for qualified first-time homebuyer dis-
 18 tributions (as defined in section 72(t)(7)) or for
 19 the payment of qualified higher education ex-
 20 penses (as defined in section 72(t)(8)).”

21 (e) EFFECTIVE DATE.—The amendments made by
 22 this section shall apply to payments and distributions after
 23 the date of the enactment of this Act.

○