

106TH CONGRESS  
1ST SESSION

# H. R. 188

To amend the Internal Revenue Code of 1986 to allow penalty-free withdrawals from IRAs for certain purposes, to increase the amount of tax deductible IRA contributions, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1999

Mr. McCOLLUM 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 penalty-free withdrawals from IRAs for certain purposes, to increase the amount of tax deductible IRA contributions, 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. PENALTY-FREE DISTRIBUTIONS FROM IRAS**  
4                               **AND EXCLUSION FROM INCOME OF CERTAIN**  
5                               **IRA DISTRIBUTIONS WHICH ARE REPAID.**

6       (a) IRA DISTRIBUTIONS FOR LONG-TERM CARE  
7       SERVICES.—Paragraph (2) of section 72(t) of the Internal

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1 Revenue Code of 1986 is amended by adding at the end  
2 the following new subparagraph:

3                   “(G) DISTRIBUTIONS FROM CERTAIN  
4                   PLANS FOR LONG-TERM CARE SERVICES.—Dis-  
5                   tributions to an individual from an individual  
6                   retirement plan to the extent such distributions  
7                   do not exceed the expenses paid by the taxpayer  
8                   during the taxable year for qualified long-term  
9                   care services (as defined in section 7702B(c)).  
10                  Distributions shall not be taken into account  
11                  under the preceding sentence if such distribu-  
12                  tions are described in subparagraph (A), (C),  
13                  (D), (E), or (F) or to the extent paragraph (1)  
14                  does not apply to such distributions by reason  
15                  of subparagraph (B).”

16           (b) EXPANDED PENALTY-FREE WITHDRAWALS FOR  
17 UNEMPLOYED.—

18                   (1) IN GENERAL.—Clause (i) of section  
19                   72(t)(2)(D) of such Code is amended by inserting  
20                   “and” at the end of subclause (I), by striking “,  
21                   and” at the end of subclause (II) and inserting a pe-  
22                   riod, and by striking subclause (III).

23                   (2) CONFORMING AMENDMENT.—The heading  
24                   for subparagraph (D) of section 72(t)(2) of such

1 Code is amended by striking “FOR HEALTH INSUR-  
 2 ANCE PREMIUMS”.

3 (c) IRA DISTRIBUTIONS TO PAY FINANCIALLY DEV-  
 4 ASTATING MEDICAL EXPENSES OF CERTAIN LINEAL DE-  
 5 SCENDANTS AND ANCESTORS.—Subparagraph (B) of sec-  
 6 tion 72(t)(2) of such Code is amended by striking “medi-  
 7 cal care” and all that follows and inserting “medical care  
 8 determined—

9 “(i) without regard to whether the  
 10 employee itemizes deductions for such tax-  
 11 able year, and

12 “(ii) in the case of an individual re-  
 13 tirement plan, by treating such employee’s  
 14 dependents as including—

15 “(I) all children and grand-  
 16 children of the employee or such em-  
 17 ployee’s spouse, and

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

20 (d) EXCLUSION FROM INCOME OF CERTAIN DIS-  
 21 TRIBUTIONS WHICH ARE REPAID.—Section 408 of the In-  
 22 ternal Revenue Code of 1986 (relating to individual retire-  
 23 ment accounts) is amended by redesignating subsection  
 24 (q) as subsection (r) and by inserting after subsection (p)  
 25 the following new subsection:

1       “(q) REPAYABLE DISTRIBUTIONS FROM INDIVIDUAL  
2 RETIREMENT ACCOUNTS FOR FIRST HOME PURCHASES,  
3 HIGHER EDUCATION EXPENSES, QUALIFIED LONG TERM  
4 CARE EXPENSES, QUALIFIED UNEMPLOYMENT DIS-  
5 TRIBUTIONS, AND FINANCIALLY DEVASTATING MEDICAL  
6 EXPENSES.—

7               “(1) IN GENERAL.—Notwithstanding any other  
8 provision of this section, gross income shall not in-  
9 clude any qualified distribution.

10              “(2) REPAYMENT REQUIREMENT.—

11                      “(A) ADDITION TO TAX.—If the required  
12 recontributions made by the taxpayer during  
13 the repayment period are less than the qualified  
14 distribution, the tax imposed by this chapter for  
15 the last taxable year in the repayment period  
16 shall be increased by the amount determined  
17 under subparagraph (B).

18                      “(B) DETERMINATION OF AMOUNT.—The  
19 amount determined under this subparagraph  
20 shall be an amount which bears the same ratio  
21 to the tax benefit amount as—

22                              “(i) the excess (if any) of the qualified  
23 distribution over required recontributions  
24 made during the repayment period, bears  
25 to

1 “(ii) the qualified distribution.

2 “(C) REPAYMENT PERIOD.—For purposes  
3 of this subsection, the term ‘repayment period’  
4 means, with respect to any qualified distribu-  
5 tion, the 5-taxable year period beginning after  
6 the taxable year in which such distribution is  
7 received.

8 “(D) TAX BENEFIT AMOUNT.—For pur-  
9 poses of this subsection, the term ‘tax benefit  
10 amount’ means, with respect to any qualified  
11 distribution, the sum of—

12 “(i) the aggregate reduction in the tax  
13 imposed by this chapter for the taxable  
14 year in which such distribution is received  
15 by reason of the exclusion under paragraph  
16 (1), and

17 “(ii) interest on the amount of such  
18 reduction for the repayment period com-  
19 puted at the Federal mid-term rate (within  
20 the meaning of section 1274(d)(1)) and  
21 compounded annually.

22 “(3) QUALIFIED DISTRIBUTION.—For purposes  
23 of this subsection, the term ‘qualified distribution’  
24 means any distribution described in subparagraph  
25 (B), (D), (E), (F), or (G) of section 72(t)(2) to an

1 individual from an individual retirement plan main-  
2 tained for the benefit of such individual.

3 “(4) RECONTRIBUTION OF QUALIFIED DIS-  
4 TRIBUTIONS.—

5 “(A) IN GENERAL.—If an individual re-  
6 ceived a qualified distribution, such individual  
7 shall make required recontributions in the man-  
8 ner provided in this paragraph to an individual  
9 retirement plan maintained for the benefit of  
10 such individual.

11 “(B) METHOD OF MAKING RECONTRIBU-  
12 TION.—Any required recontribution—

13 “(i) shall be made during the repay-  
14 ment period for the qualified distribution,

15 “(ii) shall not exceed the qualified dis-  
16 tribution reduced by any prior recontribu-  
17 tion under this paragraph with respect to  
18 such distribution, and

19 “(iii) shall be made by making a pay-  
20 ment in cash to an individual retirement  
21 plan for the benefit of such individual.

22 An individual making a required recontribution  
23 under this paragraph shall designate (in the  
24 manner prescribed by the Secretary) such con-  
25 tribution as a required recontribution under

1           this paragraph and shall specify the qualified  
 2           distribution with respect to which such recon-  
 3           tribution is being made.

4           “(C) TREATMENT AS ROLLOVER CON-  
 5           TRIBUTION.—For purposes of this title, any re-  
 6           quired retribution under this paragraph  
 7           shall be treated as a rollover contribution de-  
 8           scribed in subsection (d)(3).

9           “(7) OTHER SPECIAL RULES.—

10           “(A) BASIS RULES NOT AFFECTED.—The  
 11           tax treatment under this chapter of any dis-  
 12           tribution (other than a qualified distribution)  
 13           shall be determined as if this subsection had  
 14           not been enacted.

15           “(B) AGGREGATION RULE.—For purposes  
 16           of this subsection, all qualified distributions re-  
 17           ceived by an individual during a taxable year  
 18           shall be treated as a single distribution.”

19           (e) EFFECTIVE DATE.—The amendments made by  
 20           this section shall apply to distributions received in taxable  
 21           years beginning after December 31, 1998.

22           **SEC. 2. INCREASE IN AMOUNT OF DEDUCTIBLE IRA CON-**  
 23           **TRIBUTIONS AND INDEXING FOR INFLATION.**

24           (a) INCREASE IN MAXIMUM AMOUNT OF DEDUC-  
 25           TION.—Subparagraph (A) of section 219(b)(1) of the In-

1 ternal Revenue Code of 1986 (relating to maximum  
 2 amount of deduction) is amended by striking “\$2,000”  
 3 and inserting “\$4,500”.

4 (b) INFLATION ADJUSTMENTS.—Subsection (f) of  
 5 section 219 of such Code is amended by adding at the  
 6 end the following new paragraph:

7 “(8) INFLATION ADJUSTMENTS.—In the case of  
 8 a taxable year beginning in a calendar year after  
 9 1999, each dollar amount set forth in subsections  
 10 (b)(1)(A) and (g)(3)(B) shall be increased by an  
 11 amount equal to—

12 “(A) such dollar amount, multiplied by

13 “(B) the cost-of-living adjustment deter-  
 14 mined under section 1(f)(3) for such calendar  
 15 year by substituting ‘calendar year 1998’ for  
 16 ‘calendar year 1992’ in subparagraph (B)  
 17 thereof.

18 If any increase determined under the preceding sen-  
 19 tence is not a multiple of \$100, such increase shall  
 20 be rounded to the nearest multiple of \$100.”

21 (c) CONFORMING AMENDMENTS.—

22 (1) Subsections (a)(1) and (b) of section 408 of  
 23 such Code are each amended by striking “\$2,000”  
 24 each place it appears and inserting “the dollar limi-  
 25 tation in effect under section 219(b)(1)(A)”.



1           (2) Subsection (j) of section 408 of such Code  
 2           is amended by striking “the \$2,000 amounts con-  
 3           tained” and inserting “the dollar limitations referred  
 4           to”.

5           (3) Paragraph (8) of section 408(p) of such  
 6           Code is amended by striking “\$2,000” and inserting  
 7           “the dollar limitation in effect under section  
 8           219(b)(1)(A)”.

9           (d) EFFECTIVE DATE.—The amendments made by  
 10          this section shall apply to taxable years beginning after  
 11          December 31, 1998.

12   **SEC. 3. ELIMINATION OF PHASE-OUT FOR INDIVIDUALS**  
 13                           **NOT ACTIVE PARTICIPANTS IN DEFINED CON-**  
 14                           **TRIBUTION PLANS AND INCREASE OF IN-**  
 15                           **COME LIMITS FOR OTHERS.**

16          (a) ELIMINATION OF PHASE-OUT FOR INDIVIDUALS  
 17          NOT ACTIVE PARTICIPANTS IN DEFINED CONTRIBUTION  
 18          PLAN.—Paragraph (5) of section 219(g) of the Internal  
 19          Revenue Code of 1986 (relating to active participant) is  
 20          amended by striking the period at the end of subpara-  
 21          graph (B) and inserting a comma, and by inserting after  
 22          subparagraph (B) the following:

23           “if such plan, contract, pension, or trust is a defined  
 24           contribution plan (as defined in section 414(i)).”

25          (b) INCREASE IN INCOME PHASEOUT LEVELS.—

1           (1) IN GENERAL.—Subparagraph (B) of section  
 2           219(g)(3) of such Code (relating to applicable dollar  
 3           amount) is amended to read as follows:

4                   “(B) APPLICABLE DOLLAR AMOUNT.—The  
 5           term ‘applicable dollar amount’ means—

6                           “(i) in the case of a taxpayer filing a  
 7                           joint return, \$120,000,

8                           “(ii) in the case of any other taxpayer  
 9                           (other than a married individual filing a  
 10                          separate return), \$75,000, and

11                          “(iii) in the case of a married individ-  
 12                          ual filing a separate return, zero.”

13           (2) CROSS REFERENCE TO INFLATION ADJUST-  
 14           MENT.—Paragraph (3) of section 219(g) of such  
 15           Code is amended by adding at the end the following  
 16           new subparagraph:

17                   “(C) CROSS REFERENCE.—

**“For inflation adjustment of dollar amounts set  
 forth in subparagraph (B), see subsection (f)(8).”**

18           (c) EFFECTIVE DATE.—The amendments made by  
 19           this section shall apply to taxable years beginning after  
 20           December 31, 1998.

1 **SEC. 4. WITHHOLDING, CONTRIBUTION LIMITS, AND**  
2 **MATCHING CONTRIBUTION NONDISCRIMINA-**  
3 **TION REQUIREMENTS FOR 401(k) PLANS.**

4 (a) INAPPLICABILITY OF WITHHOLDING REQUIRE-  
5 MENT TO 401(k) DISTRIBUTIONS.—

6 (1) IN GENERAL.—Paragraph (3) of section  
7 3405(c) of the Internal Revenue Code of 1986 (re-  
8 lating to eligible rollover distribution) is amended by  
9 striking the period at the end and inserting the fol-  
10 lowing: “, except that such term shall not include a  
11 distribution from a qualified cash or deferred ar-  
12 rangement (as defined in section 401(k)).”

13 (2) EFFECTIVE DATE.—The amendment made  
14 by this subsection shall apply to distributions made  
15 after December 31, 1998.

16 (b) INCREASE IN CONTRIBUTION LIMITS FOR 401(k)  
17 PLANS.—

18 (1) IN GENERAL.—Paragraph (1) of section  
19 402(g) of such Code (relating to limitation on exclu-  
20 sion for elective deferrals) is amended by striking  
21 “\$7,000” and inserting “\$20,000”.

22 (2) CONFORMING AMENDMENT.—Paragraph (5)  
23 of section 402(g) of such Code (relating to cost-of-  
24 living adjustment) is amended by striking “\$7,000”  
25 and inserting “\$20,000” and by inserting before the

1       period “and the base period taken into account shall  
2       be the calendar quarter beginning October 1, 1998”.

3           (3) EFFECTIVE DATE.—The amendments made  
4       by this subsection shall apply to taxable years begin-  
5       ning after December 31, 1998.

6       (c) ALTERNATIVE METHODS FOR MEETING SECTION  
7       401(k) NONDISCRIMINATION TEST AND NONDISCRIMINA-  
8       TION TEST FOR MATCHING CONTRIBUTIONS.—

9           (1)     SECTION     401(k)     NONDISCRIMINATION  
10       TEST.—Subsection (k) of section 401 of such Code  
11       (relating to cash or deferred arrangements) is  
12       amended by adding at the end the following new  
13       paragraph:

14           “(13) ADDITIONAL ALTERNATIVE METHOD OF  
15       MEETING NONDISCRIMINATION REQUIREMENTS.—

16           “(A) IN GENERAL.—A cash or deferred ar-  
17       rangement shall be treated as meeting the re-  
18       quirements of paragraph (3)(A)(ii) if—

19           “(i) under the arrangement, the em-  
20       ployer makes matching contributions on  
21       behalf of each employee in an amount  
22       equal to a percentage of the contributions  
23       and elective deferrals of such employee,

24           “(ii) the same such percentage applies  
25       to all employees of the employer, and

1 “(iii) not less than biannually, each  
2 employee eligible to participate under the  
3 arrangement is given written notice of the  
4 employee’s rights and obligations under the  
5 arrangement which meets the requirements  
6 of clauses (i) and (ii) of paragraph  
7 (12)(D).

8 “(B) SPECIAL RULES REGARDING IN-  
9 CREASE AND DECREASE IN MATCHING CON-  
10 TRIBUTIONS.—

11 “(i) INCREASE IN RATE OF MATCHING  
12 CONTRIBUTIONS.—An arrangement shall  
13 not be treated as meeting the requirement  
14 of subparagraph (A)(ii) if the rate of the  
15 employer’s matching contributions in-  
16 creases as the rate of an employee’s con-  
17 tributions or elective deferrals increases.

18 “(ii) PERMISSIBLE DECREASE AS  
19 ELECTIVE DEFERRALS AND CONTRIBU-  
20 TIONS INCREASE.—An arrangement shall  
21 not fail to be treated as meeting the re-  
22 quirement of subparagraph (A)(ii) by rea-  
23 son of a decrease in the rate of the employ-  
24 er’s matching contributions as the rate of  
25 the employee’s contributions or elective de-

1                   ferrals increases, if the same such rate of  
 2                   decrease applies to all employees of the  
 3                   employer.”

4                   (2) NONDISCRIMINATION TEST FOR MATCHING  
 5                   CONTRIBUTIONS.—Subsection (m) of section 401 of  
 6                   such Code is amended by redesignating paragraph  
 7                   (12) as paragraph (13) and by inserting after para-  
 8                   graph (11) the following new paragraph:

9                   “(12) ADDITIONAL ALTERNATIVE METHOD FOR  
 10                  CASH OR DEFERRED ARRANGEMENTS.—A qualified  
 11                  cash or deferred arrangement (as defined in sub-  
 12                  section (k)) shall be treated as meeting the require-  
 13                  ments of paragraph (2) with respect to matching  
 14                  contributions if the arrangement meets the require-  
 15                  ments of subsection (k)(13).”

16                  (3) EFFECTIVE DATE.—The amendments made  
 17                  by this section shall apply to years beginning after  
 18                  December 31, 1998.

19 **SEC. 5. INHERITED IRAS AND INHERITED 401(k) AMOUNTS.**

20                  (a) EXCLUSION OF INHERITED IRAS AND CERTAIN  
 21                  INHERITED 401(k) AMOUNTS FROM GROSS ESTATE.—

22                  (1) IN GENERAL.—Section 2039 of the Internal  
 23                  Revenue Code of 1986 is amended by adding at the  
 24                  end the following new subsection:

1       “(c) EXCLUSION OF INDIVIDUAL RETIREMENT AC-  
 2 COUNTS AND CERTAIN INHERITED 401(k) AMOUNTS.—  
 3 Notwithstanding any other provision of this section or of  
 4 any other provision of law, there shall be excluded from  
 5 the value of the gross estate any amount receivable by any  
 6 beneficiary (other than the executor) under—

7               “(1) an individual retirement plan of the dece-  
 8 dent, or

9               “(2) a qualified cash or deferred arrangement  
 10 (as defined in section 401(k)) of the decedent, if the  
 11 requirements of section 408(o)(2)(B)(iii) are met  
 12 with respect to such amount.”

13               (2) EFFECTIVE DATE.—The amendment made  
 14 by paragraph (1) shall apply to estates of decedents  
 15 dying after December 31, 1998.

16       (b) BENEFICIARY PERMITTED TO HOLD IRA RE-  
 17 CEIVED FROM DECEDENT.—

18               (1) IN GENERAL.—Subparagraph (B) of section  
 19 401(a)(9) of such Code (relating to required dis-  
 20 tributions) is amended by adding at the end the fol-  
 21 lowing new clause:

22                       “(v) EXCEPTION FOR DESIGNATED  
 23 BENEFICIARY OF INDIVIDUAL RETIREMENT  
 24 PLAN.—Notwithstanding clauses (iii) and  
 25 (iv), if any portion of the interest in an in-

1           dividual retirement plan is payable to (or  
 2           for the benefit of) a designated beneficiary  
 3           by reason of the death of another individ-  
 4           ual, the date on which distributions from  
 5           such plan are required to begin under this  
 6           paragraph shall be determined by applying  
 7           this paragraph as if such beneficiary were  
 8           the employee.”

9           (2) CONFORMING AMENDMENT.—Paragraph (3)  
 10          of section 408(d) of such Code is amended by strik-  
 11          ing subparagraph (C) (relating to denial of rollover  
 12          treatment for inherited accounts, etc.).

13          (3) EFFECTIVE DATE.—The amendments made  
 14          by this subsection shall apply to amounts payable  
 15          after, and acquisitions after, December 31, 1998.

16          (c) CONTRIBUTION OF INHERITED 401(k) AMOUNTS  
 17          TO IRA; EXCLUSION FROM GROSS INCOME FOR SUCH  
 18          AMOUNTS.—

19          (1) IN GENERAL.—Subparagraph (B) of section  
 20          408(o)(2) of such Code (relating to nondeductible  
 21          limit) is amended by adding at the end the following  
 22          new clause:

23                       “(iii) INHERITED 401(k) AMOUNTS.—  
 24                       If, by reason of the death of an employee,  
 25                       an individual receives an amount attrib-



1                   utable to an elective deferral described in  
 2                   section 402(g)(3)(A) of such employee—

3                   “(I) such individual’s nondeduct-  
 4                   ible limit for the taxable year in which  
 5                   such amount is received shall be in-  
 6                   creased by the portion of such amount  
 7                   which is paid (not later than the 60th  
 8                   day after the date of such receipt)  
 9                   into an individual retirement plan for  
 10                  the benefit of such individual, and

11                  “(II) such portion shall not be  
 12                  includible in the gross income of such  
 13                  individual.”

14                  (2) CONFORMING AMENDMENT.—Paragraph (1)  
 15                  of section 4973(b) of such Code (relating to excess  
 16                  contributions) is amended by striking “408(d)(3))”  
 17                  and inserting “408(d)(3)) and other than amounts  
 18                  excluded from gross income under section  
 19                  408(o)(2)(B)(iii)”.

20                  (3) EFFECTIVE DATE.—The amendments made  
 21                  by this subsection shall apply to amounts received  
 22                  after December 31, 1998.

○