

106TH CONGRESS
1ST SESSION

H. R. 876

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 25, 1999

Mr. SAXTON (for himself, Mr. ARMEY, Mr. FROST, Mr. STUMP, Mr. MILLER of Florida, Mr. SMITH of New Jersey, Mr. BAKER, Mr. BACHUS, and Mr. CHABOT) 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 1999, \$2,500,

21 “(ii) for any taxable year beginning
 22 after 1999 and before 2008, 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 2007, \$7,000.

3 “(B) INFLATION ADJUSTMENT.—In the
4 case of a taxable year beginning in a calendar
5 year after 2008, 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 2007’
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 1999, \$60,000,

5 “(II) for taxable years beginning
6 after 1999 and before 2004, 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 2003, \$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 1999, \$40,000,

17 “(II) for taxable years beginning
18 after 1999 and before 2004, 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 2003, \$60,000.”

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 2004, 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 2003’
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 (6) Paragraph (8) of section 408(p) of such
18 Code is amended by striking “\$2,000” and inserting
19 “the dollar limitation in effect under section
20 219(b)(1)(A)”.

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

1 **SEC. 2. PENALTY-FREE DISTRIBUTIONS.**

2 (a) PENALTY-FREE DISTRIBUTIONS FOR FIRST
3 HOMES AND HIGHER EDUCATION EXTENDED TO CER-
4 TAIN PLANS.—

5 (1) Subparagraphs (E) and (F) of section
6 72(t)(2) of the Internal Revenue Code of 1986 are
7 each amended by inserting “, or from amounts at-
8 tributable to employer contributions made pursuant
9 to elective deferrals described in subparagraph (A)
10 or (C) of section 402(g)(3) or section
11 501(c)(18)(D)(iii),” after “individual retirement
12 plan”.

13 (2) The heading of subparagraph (E) of section
14 72(t)(2) of such Code is amended by striking “INDI-
15 VIDUAL RETIREMENT PLANS” and inserting “CER-
16 TAIN”.

17 (b) PENALTY-FREE DISTRIBUTIONS FOR CERTAIN
18 UNEMPLOYED INDIVIDUALS NOT LIMITED TO HEALTH
19 INSURANCE COSTS AND ALLOWED FROM 401(k) PLANS,
20 ETC.—Subparagraph (D) of section 72(t)(2) of such Code
21 is amended—

22 (1) in clause (i), by inserting “, or from
23 amounts attributable to employer contributions
24 made pursuant to elective deferrals described in sub-
25 paragraph (A) or (C) of section 402(g)(3) or section

1 501(c)(18)(D)(iii),” after “individual retirement
2 plan”,

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

7 (3) by striking “FOR HEALTH INSURANCE PRE-
8 MIUMS” in the subparagraph heading.

9 (c) UNLIMITED PENALTY-FREE DISTRIBUTIONS FOR
10 MEDICAL CARE AND EXPANDED DEFINITION OF DE-
11 PENDENTS FOR PURPOSES OF SUCH DISTRIBUTIONS.—
12 Subparagraph (B) of section 72(t)(2) of such Code is
13 amended by striking “medical care” and all that follows
14 and inserting “medical care, determined—

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

18 “(ii) in the case of a distribution from
19 an individual retirement plan, or from
20 amounts attributable to employer contribu-
21 tions made pursuant to elective deferrals
22 described in subparagraph (A) or (C) of
23 section 402(g)(3) or section
24 501(c)(18)(D)(iii)—

1 “(I) without regard to whether or
2 not such expenses exceed 7.5 percent
3 of adjusted gross income, and

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

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

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