

106TH CONGRESS
1ST SESSION

S. 1013

To amend the Internal Revenue Code of 1986 to promote lifetime savings by allowing people to establish child savings accounts within Roth IRAs and by allowing the savings to be used for education, first-time home purchases, and retirement, to expand the availability of Roth IRAs to all Americans and to protect their contributions from inflation, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 11, 1999

Mr. FRIST 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 promote lifetime savings by allowing people to establish child savings accounts within Roth IRAs and by allowing the savings to be used for education, first-time home purchases, and retirement, to expand the availability of Roth IRAs to all Americans and to protect their contributions from inflation, 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,*

1 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

2 (a) SHORT TITLE.—This Act may be cited as the
3 “Child Savings Account Act”.

4 (b) AMENDMENT OF 1986 CODE.—Except as other-
5 wise expressly provided, whenever in this Act an amend-
6 ment or repeal is expressed in terms of an amendment
7 to, or repeal of, a section or other provision, the reference
8 shall be considered to be made to a section or other provi-
9 sion of the Internal Revenue Code of 1986.

10 **TITLE I—SAVINGS INCENTIVES**
11 **FOR AMERICA’S CHILDREN**

12 **SEC. 101. ESTABLISHMENT OF CHILD SAVINGS ACCOUNTS**
13 **WITHIN ROTH IRAS.**

14 (a) IN GENERAL.—Section 408A (relating to Roth
15 IRAs) is amended by adding at the end the following new
16 subsection:

17 “(g) CHILD SAVINGS ACCOUNT.—

18 “(1) IN GENERAL.—If the individual on whose
19 behalf a Roth IRA was established has not attained
20 the age of 17 before the close of any calendar year—

21 “(A) the Roth IRA shall be treated as a
22 Child Savings Account for the taxable year, and

23 “(B) this section shall be applied to the
24 Roth IRA for the taxable year with the modi-
25 fications provided in paragraphs (2) and (3).

1 “(2) WAIVER OF EARNED INCOME REQUIRE-
 2 MENT.—For purposes of subsection (c)(2)(A), the
 3 maximum amount allowable as a deduction under
 4 section 219 shall be computed without regard to the
 5 compensation limitation of section 219(b)(1)(B).

6 “(3) ROLLOVER WHERE ACCOUNT HOLDER
 7 DIES BEFORE AGE 30.—If an individual on whose be-
 8 half a Roth IRA was established dies before attain-
 9 ing the age of 30—

10 “(A) the transfer of the individual’s inter-
 11 est in a Roth IRA to a member of the individ-
 12 ual’s family (within the meaning of section
 13 529(e)(2)) shall not be considered a taxable
 14 transfer for purposes of this title, and

15 “(B) such interest shall, on and after the
 16 date of the transfer, be treated as a Roth IRA
 17 maintained for the benefit of the family member
 18 and not of the individual.”

19 (b) CONFORMING AMENDMENTS.—

20 (1) Section 408(a)(1) is amended by striking
 21 “or 403(b)(8)” and inserting “, 403(b)(8), or
 22 408A(g)(3)”.

23 (2) Section 408(d)(3)(C)(ii)(II) is amended by
 24 inserting “or in the case of a Roth IRA, a member
 25 of the same family of such other individual”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 1999.

4 **SEC. 102. ADDITIONAL CHILD CREDIT FOR CONTRIBUTIONS**
 5 **TO CHILD SAVINGS ACCOUNTS BY TAX-**
 6 **PAYERS NOT ELIGIBLE FOR ENTIRE CHILD**
 7 **CREDIT.**

8 (a) IN GENERAL.—Section 24 (relating to child tax
 9 credit) is amended by adding at the end the following new
 10 subsection:

11 “(g) ADDITIONAL REFUNDABLE CREDIT FOR CON-
 12 TRIBUTIONS TO CHILD SAVINGS ACCOUNTS.—

13 “(1) IN GENERAL.—The aggregate credits al-
 14 lowed under subpart C shall be increased by the
 15 lesser of—

16 “(A) the credit which would be allowed
 17 under this section without regard to this sub-
 18 section and subsection (d) and the limitation
 19 under section 26(a), or

20 “(B) the amount of the contributions to
 21 child savings accounts of qualifying children of
 22 the taxpayer for the taxable year to the extent
 23 such contributions do not exceed \$100 multi-
 24 plied by the number of qualifying children.

1 “(2) LIMITATION.—In no event shall the
2 amount of the increase under paragraph (1)
3 exceed—

4 “(A) the aggregate amount of credits al-
5 lowed by this subpart in excess of the limitation
6 imposed by section 26(a), reduced by

7 “(B) any additional credits allowed by sub-
8 section (d).

9 “(3) COORDINATION.—The credit under this
10 subsection shall not be taken into account in apply-
11 ing subsection (d) and section 32(n) (relating to
12 supplemental child credit).”

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to taxable years beginning after
15 December 31, 1999.

16 **SEC. 103. TAX-FREE DISTRIBUTIONS FOR ELEMENTARY,**
17 **SECONDARY, AND COLLEGE EDUCATION.**

18 (a) IN GENERAL.—Section 408A(d)(5) (defining
19 qualified special purpose distribution) is amended to read
20 as follows:

21 “(5) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of this section—

22 “(A) IN GENERAL.—The term ‘qualified
23 special purpose distribution’ means any of the
24 following distributions:
25

“(i) Distributions described in subparagraph (F) of section 72(t)(2) (relating to first home purchases).

“(ii) Distributions to the extent such distributions do not exceed the qualified education expenses of the taxpayer for the taxable year.

“(B) QUALIFIED EDUCATION EXPENSES.—

“(i) IN GENERAL.—The term ‘qualified education expenses’ means—

“(I) qualified higher education expenses (as defined in section 72(t)(7)),

“(II) qualified elementary and secondary education expenses, and

“(III) amounts paid or incurred during the taxable year to purchase tuition credits or certificates, or to make contributions to an account, under a qualified State tuition program (as defined in section 529(b)) for the benefit of the beneficiary of the account, the beneficiary’s spouse, or any child (as defined in section

1 151(c)(3)) or grandchild of the bene-
 2 ficiary or spouse.

3 “(ii) LIMITATION.—The aggregate
 4 amount treated as qualified education ex-
 5 penses for any taxable year shall not ex-
 6 ceed an amount equal to the excess (if
 7 any) of—

8 “(I) _____ percent of the fair
 9 market value of the assets in the Roth
 10 IRA as of the close of the calendar
 11 year preceding the calendar year in
 12 which the taxable year begins, over

13 “(II) distributions described in
 14 subparagraph (F) of section 72(t)(2)
 15 (relating to first home purchases) for
 16 the taxable year.

17 “(C) QUALIFIED ELEMENTARY AND SEC-
 18 ONDARY EDUCATION EXPENSES.—

19 “(i) IN GENERAL.—The term ‘quali-
 20 fied elementary and secondary education
 21 expenses’ means—

22 “(I) expenses for tuition, fees,
 23 academic tutoring, special needs serv-
 24 ices, books, supplies, computer equip-
 25 ment (including related software and

1 services), and other equipment which
2 are incurred in connection with the
3 enrollment or attendance of the des-
4 ignated beneficiary of the trust, or of
5 the child or grandchild of the bene-
6 ficiary of the account or beneficiary's
7 spouse, as an elementary or secondary
8 school student at a public, private, or
9 religious school, or

10 “(II) expenses for room and
11 board, uniforms, transportation, and
12 supplementary items and services (in-
13 cluding extended day programs) which
14 are required or provided by a public,
15 private, or religious school in connec-
16 tion with such enrollment or attend-
17 ance.

18 “(ii) SPECIAL RULE FOR HOME-
19 SCHOOLING.—Such term shall include ex-
20 penses described in clause (i) required for
21 education provided for homeschooling if
22 the requirements of any applicable State or
23 local law are met with respect to such edu-
24 cation.

1 “(iii) SCHOOL.—The term ‘school’
 2 means any school which provides elemen-
 3 tary education or secondary education
 4 (kindergarten through grade 12), as deter-
 5 mined under State law.”

6 (b) ADDITIONAL TAX NOT TO APPLY TO EDUCATION
 7 EXPENSES.—Section 72(t)(2) is amended by adding at
 8 the end the following new subparagraph:

9 “(G) CERTAIN EDUCATION EXPENSES IN
 10 CASE OF A ROTH IRA.—Distributions to an indi-
 11 vidual from a Roth IRA which are described in
 12 subclause (II) or (III) of section
 13 408A(d)(5)(B)(i). Distributions shall not be
 14 taken into account under the preceding sen-
 15 tence if such distributions are described in sub-
 16 paragraphs (A), (C), (D), (E), or (F) or to the
 17 extent paragraph (1) does not apply to such
 18 distributions by reason of subparagraph (B).

19 (c) REPEAL OF EDUCATION IRAS.—

20 (1) IN GENERAL.—Section 530 (relating to edu-
 21 cation individual retirement accounts) is repealed.

22 (2) CONFORMING AMENDMENTS.—

23 (A) Section 25A(e) is amended to read as
 24 follows:

1 “(e) ELECTION TO HAVE SECTION APPLY.—No
 2 credit shall be allowed under subsection (a) for a taxable
 3 year with respect to the qualified and tuition-related ex-
 4 penses of an individual unless the taxpayer elects to have
 5 this section apply to the individual for the taxable year.”

6 (B) Section 26(b)(2) is amended by strik-
 7 ing subparagraph (E) and by redesignating
 8 subparagraphs (F) through (Q) as subpara-
 9 graphs (E) through (P), respectively.

10 (C) Section 72(e)(9) is amended to read as
 11 follows:

12 “(9) EXTENSION OF PARAGRAPH (2)(B) TO
 13 QUALIFIED STATE TUITION PROGRAMS.—Notwith-
 14 standing any other provision of this subsection,
 15 paragraph (2)(B) shall apply to amounts received
 16 under a qualified State tuition program (as defined
 17 in section 529(b)). The rule of paragraph (8)(B)
 18 shall apply for purposes of this paragraph.”

19 (D) Section 135(c)(2)(C) is amended—

20 (i) by striking “, or to an education
 21 individual retirement account (as defined
 22 in section 530) on behalf of an account
 23 beneficiary,” and

1 (ii) by striking “AND EDUCATION IN-
2 DIVIDUAL RETIREMENT ACCOUNTS” in the
3 heading thereof.

4 (E) Section 135(d)(2) is amended by strik-
5 ing “by—” and all that follows and inserting
6 “by the amount of such expenses which are
7 taken into account in determining the credit al-
8 lowable to the taxpayer or any other person
9 under section 25A with respect to such ex-
10 penses.”

11 (F) Section 221(e)(2)(A) is amended by
12 striking “, 135, or 530” and inserting “or
13 135”.

14 (G) Section 4973(a) is amended by insert-
15 ing “or” at the end of paragraph (2), by strik-
16 ing “or” at the end of paragraph (3), and by
17 striking paragraph (4).

18 (H) Section 4973 is amended by striking
19 subsection (e) and by redesignating subsection
20 (f) as subsection (e).

21 (I) Section 4975(c) is amended by striking
22 paragraph (5).

23 (J) Section 4975(e)(1) is amended by in-
24 serting “or” at the end of subparagraph (D),

1 by striking subparagraph (E), and by redesignating subparagraph (F) as subparagraph (E).

3 (K) Section 6693(a)(2) is amended by inserting “and” at the end of subparagraph (B),
 4 by striking “, and” at the end of subparagraph (C) and inserting a period, and by striking subparagraph (D).

8 (L) The table of sections for part VIII of subchapter F of chapter 1 is amended by striking the item relating to section 530.

11 (d) EFFECTIVE DATE.—

12 (1) IN GENERAL.—The amendments made by this section shall apply to contributions for taxable
 13 years beginning after December 31, 1999 (and earnings allocable thereto).

16 (2) ROLLOVERS FROM EDUCATION IRAS TO ROTH IRAS.—For purposes of section 530(d)(5) of
 17 the Internal Revenue Code of 1986 (as in effect before its repeal by this section), any amount received
 18 from an education individual retirement account which is paid into a Roth IRA within the prescribed
 19 time shall be treated as if it were paid into another education individual retirement account.

**TITLE II—EXPANSION OF
AVAILABILITY OF IRAS**

**SEC. 201. INFLATION ADJUSTMENT FOR DEDUCTIBLE
AMOUNT.**

(a) IN GENERAL.—Section 219 is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) COST-OF-LIVING ADJUSTMENTS.—In the case of any taxable year beginning in a calendar year after 1998, the \$2,000 amount under subsection (b)(1)(A) shall be increased by an amount equal to the product of \$2,000 and the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, except that subparagraph (B) thereof shall be applied by substituting ‘1998’ for ‘1992’. If the amount to which \$2,000 would be increased under the preceding sentence is not a multiple of \$500, such amount shall be rounded to the next lower multiple of \$500.”

(b) CONFORMING AMENDMENTS.—

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

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

4 (3) Section 408(b) is amended by striking
 5 “\$2,000” in the matter following paragraph (4) and
 6 inserting “the dollar amount in effect under section
 7 219(b)(1)(A)”.

8 (4) Section 408(j) is amended by striking
 9 “\$2,000”.

10 (5) Section 408(p)(8) is amended by striking
 11 “\$2,000” and inserting “the dollar amount in effect
 12 under section 219(b)(1)(A)”.

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 1999.

16 **SEC. 202. REPEAL OF ADJUSTED GROSS INCOME LIMITA-**
 17 **TIONS ON CONTRIBUTIONS AND ROLLOVERS**
 18 **TO ROTH IRAS.**

19 (a) IN GENERAL.—Section 408A(c) is amended by
 20 striking paragraph (3) and by redesignating paragraphs
 21 (4) through (7) as paragraphs (3) through (6), respec-
 22 tively.

23 (b) REPEAL OF NONDEDUCTIBLE CONTRIBU-
 24 TIONS.—

1 (1) Subsection (f) of section 219 is amended by
2 striking paragraph (7).

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

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

7 “(5) TERMINATION.—This subsection shall not
8 apply to any designated nondeductible contribution
9 for any taxable year beginning after December 31,
10 1999.”

11 (4) Subsection (b) of section 4973 is amended
12 by striking the last sentence.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 1999.

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