

107TH CONGRESS  
1ST SESSION

# H. R. 465

To amend the Internal Revenue Code of 1986 to allow rollover contributions to individual retirement plans from deferred compensation plans maintained by States and local governments and to allow State and local governments to maintain 401(k) plans.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 6, 2001

Mr. McNULTY 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 rollover contributions to individual retirement plans from deferred compensation plans maintained by States and local governments and to allow State and local governments to maintain 401(k) plans.

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. ROLLOVER CONTRIBUTIONS FROM DEFERRED**  
4                       **COMPENSATION PLANS OF STATE AND**  
5                       **LOCAL GOVERNMENTS.**

6       (a) ROLLOVERS FROM SECTION 457 PLANS.—

1           (1) IN GENERAL.—Section 457(e) of the Inter-  
2       nal Revenue Code of 1986 (relating to other defini-  
3       tions and special rules) is amended by adding at the  
4       end the following:

5           “(16) ROLLOVER AMOUNTS.—

6           “(A) GENERAL RULE.—In the case of an  
7       eligible deferred compensation plan of an eligi-  
8       ble employer described in paragraph (1)(A),  
9       if—

10           “(i) any portion of the balance to the  
11       credit of an employee in such plan is paid  
12       to such employee in a rollover distribution  
13       (other than a distribution described in sub-  
14       section (d)(1)(A)(iii) or in subparagraph  
15       (A) or (B) of section 402(c)(4)),

16           “(ii) the employee transfers any por-  
17       tion of the property such employee receives  
18       in such distribution to an individual retire-  
19       ment plan (as defined in section  
20       7701(a)(37)), and

21           “(iii) in the case of a distribution of  
22       property other than money, the amount so  
23       transferred consists of the property distrib-  
24       uted,

1           then such distribution (to the extent so trans-  
 2           ferred) shall not be includible in gross income  
 3           for the taxable year in which paid.

4           “(B) CERTAIN RULES MADE APPLICA-  
 5           BLE.—Rules similar to the rules of section  
 6           401(a)(31), paragraphs (2), (3), (5), (6), (7),  
 7           and (9) of section 402(c), and section 402(f)  
 8           shall apply for purposes of subparagraph (A).”.

9           (2) DISTRIBUTION REQUIREMENTS.—Section  
 10          457(d)(1)(A) of such Code (relating to distribution  
 11          requirements) is amended by inserting “except as  
 12          provided in subsection (e)(16),” after “(A)”.

13          (3) CONFORMING AMENDMENTS.—

14           (A) Section 72(o)(4) of such Code is  
 15           amended—

16                   (i) by striking “and 408(d)(3)” and  
 17                   inserting “408(d)(3), and 457(e)(16)”,

18                   (ii) by inserting “or excludable” after  
 19                   “deductible” each place it appears, and

20                   (iii) in the heading by inserting “OR  
 21                   EXCLUDABLE” after “DEDUCTIBLE”.

22           (B) Section 219(d)(2) of such Code is  
 23           amended by striking “or 408(d)(3)” and insert-  
 24           ing “408(d)(3), or 457(e)(16)”.

1 (C) Section 401(a)(31)(B) of such Code is  
2 amended by striking “and 403(a)(4)” and in-  
3 serting “, 403(a)(4), and 457(e)(16)”.

4 (D) Paragraph (4) of section 402(c) of  
5 such Code is amended by inserting “or in an el-  
6 igible deferred compensation plan (as defined in  
7 section 457(b)) of an eligible employer de-  
8 scribed in section 457(e)(1)(A)” after “qualified  
9 trust”.

10 (E) Section 408(a)(1) of such Code is  
11 amended by striking “or 403(b)(8)” and insert-  
12 ing “, 403(b)(8), or 457(e)(16)”.

13 (F) Section 408(d)(3)(A)(ii) of such Code  
14 is amended by striking “or” after “501(a)” and  
15 inserting a comma, and by inserting “, or from  
16 an eligible deferred compensation plan described  
17 in section 457(b)” after “contribution”.

18 (G) The first sentence of subsection (e) of  
19 section 408A of such Code is amended—

20 (i) by inserting “, from an eligible de-  
21 ferred compensation plan (as defined in  
22 section 457(b)),” after “account”, and

23 (ii) by inserting before the period the  
24 following: “or in the case of such eligible

1 deferred compensation plan section  
2 457(e)(16)”.  
3

4 (H) Subparagraphs (A) and (B) of section  
5 415(b)(2) of such Code are each amended by  
6 striking “and 408(d)(3)” and inserting  
7 “408(d)(3), and 457(e)(16)”.  
8

9 (I) Section 4973(b)(1)(A) of such Code is  
10 amended by striking “or 408(d)(3)” and insert-  
11 ing “408(d)(3), or 457(e)(16)”.  
12

13 (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to distributions after December 31,  
15 2000.

16 **SEC. 2. STATE AND LOCAL GOVERNMENTS ELIGIBLE**  
17 **UNDER SECTION 401(k).**

18 (a) IN GENERAL.—Subparagraph (B) of section  
19 401(k)(4) of the Internal Revenue Code of 1986 (relating  
20 to eligibility of State and local governments and tax-ex-  
21 empt organizations) is amended by striking clause (ii) and  
22 redesignating clause (iii) as clause (ii).  
23

24 (b) CONFORMING AMENDMENT.—Clause (i) of sec-  
25 tion 401(k)(4)(B) of such Code is amended by striking  
26 “Except as provided in clause (ii), any” and inserting  
27 “Any”.  
28

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to plan years beginning after De-  
3 cember 31, 2000.

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