

108TH CONGRESS
2D SESSION

S. 2263

To amend the Internal Revenue Code of 1986 to create Lifetime Savings Accounts.

IN THE SENATE OF THE UNITED STATES

MARCH 31, 2004

Mr. THOMAS (for himself, Mr. SPECTER, and Mr. KYL) 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 create
Lifetime Savings Accounts.

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. LIFETIME SAVINGS ACCOUNTS.**

4 (a) IN GENERAL.—Subchapter F of chapter 1 of the
5 Internal Revenue Code of 1986 (relating to exempt organi-
6 zations) is amended by adding at the end the following
7 new part:

1 **“PART IX—LIFETIME SAVINGS ACCOUNTS**

2 **“SEC. 530A. LIFETIME SAVINGS ACCOUNTS.**

3 “(a) GENERAL RULE.—A Lifetime Savings Account
4 shall be exempt from taxation under this subtitle. Not-
5 withstanding the preceding sentence, such account shall
6 be subject to the taxes imposed by section 511 (relating
7 to imposition of tax on unrelated business income of chari-
8 table organizations).

9 “(b) LIFETIME SAVINGS ACCOUNT.—For purposes of
10 this section, the term ‘Lifetime Savings Account’ means
11 a trust created or organized in the United States for the
12 exclusive benefit of an individual or his beneficiaries and
13 which is designated (in such manner as the Secretary shall
14 prescribe) at the time of the establishment of the trust
15 as a Lifetime Savings Account, but only if the written gov-
16 erning instrument creating the trust meets the following
17 requirements:

18 “(1) Except in the case of a qualified rollover
19 contribution described in subsection (d)—

20 “(A) no contribution will be accepted un-
21 less it is in cash, and

22 “(B) contributions will not be accepted for
23 the calendar year in excess of the contribution
24 limit specified in subsection (c)(1).

25 “(2) The trustee is a bank (as defined in sec-
26 tion 408(n)) or another person who demonstrates to

1 the satisfaction of the Secretary that the manner in
 2 which that person will administer the trust will be
 3 consistent with the requirements of this section or
 4 who has so demonstrated with respect to any indi-
 5 vidual retirement plan.

6 “(3) No part of the trust assets will be invested
 7 in life insurance contracts.

8 “(4) The interest of an individual in the bal-
 9 ance of his account is nonforfeitable.

10 “(5) The assets of the trust shall not be com-
 11 mingled with other property except in a common
 12 trust fund or common investment fund.

13 “(c) TREATMENT OF CONTRIBUTIONS AND DIS-
 14 TRIBUTIONS.—

15 “(1) CONTRIBUTION LIMIT.—

16 “(A) IN GENERAL.—The aggregate
 17 amount of contributions (other than qualified
 18 rollover contributions described in subsection
 19 (d)) for any calendar year to all Lifetime Sav-
 20 ings Accounts maintained for the benefit of an
 21 individual shall not exceed \$5,000.

22 “(B) COST-OF-LIVING ADJUSTMENT.—

23 “(i) IN GENERAL.—In the case of any
 24 calendar year after 2005, the \$5,000

1 amount under subparagraph (A) shall be
 2 increased by an amount equal to—

3 “(I) such dollar amount, multi-
 4 plied by

5 “(II) the cost-of-living adjust-
 6 ment determined under section 1(f)(3)
 7 for the calendar year, determined by
 8 substituting ‘calendar year 2004’ for
 9 ‘calendar year 1992’ in subparagraph
 10 (B) thereof.

11 “(ii) ROUNDING RULES.—If any
 12 amount after adjustment under clause (i)
 13 is not a multiple of \$500, such amount
 14 shall be rounded to the next lower multiple
 15 of \$500.

16 “(2) DISTRIBUTIONS.—Any distribution from a
 17 Lifetime Savings Account shall not be includible in
 18 gross income.

19 “(d) QUALIFIED ROLLOVER CONTRIBUTION.—For
 20 purposes of this section, the term ‘qualified rollover con-
 21 tribution’ means a contribution to a Lifetime Savings Ac-
 22 count—

23 “(1) from another such account of the same
 24 beneficiary, but only if such amount is contributed

1 not later than the 60th day after the distribution
 2 from such other account,

3 “(2) from a Lifetime Savings Account of a
 4 spouse of the beneficiary of the account to which the
 5 contribution is made, but only if such amount is
 6 contributed not later than the 60th day after the
 7 distribution from such other account, and

8 “(3) before January 1, 2006, from—

9 “(A) a qualified tuition program pursuant
 10 to section 529(c)(3)(E), or

11 “(B) a Coverdell education savings account
 12 pursuant to section 530(d)(9).

13 “(e) LOSS OF TAXATION EXEMPTION OF ACCOUNT
 14 WHERE BENEFICIARY ENGAGES IN PROHIBITED TRANS-
 15 ACTION.—Rules similar to the rules of paragraph (2) of
 16 section 408(e) shall apply to any Lifetime Savings Ac-
 17 count.

18 “(f) CUSTODIAL ACCOUNTS.—For purposes of this
 19 section, a custodial account or an annuity contract issued
 20 by an insurance company qualified to do business in a
 21 State shall be treated as a trust under this section if—

22 “(1) the custodial account or annuity contract
 23 would, except for the fact that it is not a trust, con-
 24 stitute a trust which meets the requirements of sub-
 25 section (b), and

1 “(2) in the case of a custodial account, the as-
 2 sets of such account are held by a bank (as defined
 3 in section 408(n)) or another person who dem-
 4 onstrates, to the satisfaction of the Secretary, that
 5 the manner in which he will administer the account
 6 will be consistent with the requirements of this sec-
 7 tion.

8 For purposes of this title, in the case of a custodial ac-
 9 count or annuity contract treated as a trust by reason of
 10 the preceding sentence, the person holding the assets of
 11 such account or holding such annuity contract shall be
 12 treated as the trustee thereof.

13 “(g) REPORTS.—The trustee of a Lifetime Savings
 14 Account shall make such reports regarding such account
 15 to the Secretary and to the beneficiary of the account with
 16 respect to contributions, distributions, and such other
 17 matters as the Secretary may require. The reports re-
 18 quired by this subsection shall be filed at such time and
 19 in such manner and furnished to such individuals at such
 20 time and in such manner as may be required.”.

21 (b) TAX ON EXCESS CONTRIBUTIONS.—

22 (1) IN GENERAL.—Subsection (a) of section
 23 4973 of the Internal Revenue Code of 1986 (relating
 24 to tax on excess contributions to certain tax-favored
 25 accounts and annuities) is amended by striking “or”

1 at the end of paragraph (4), by inserting “or” at the
 2 end of paragraph (5), and by inserting after para-
 3 graph (5) the following new paragraph:

4 “(6) a Lifetime Savings Account (as defined in
 5 section 530A),”.

6 (2) EXCESS CONTRIBUTION.—Section 4973 of
 7 such Code is amended by adding at the end the fol-
 8 lowing new subsection:

9 “(h) EXCESS CONTRIBUTIONS TO LIFETIME SAVINGS
 10 ACCOUNTS.—For purposes of this section—

11 “(1) IN GENERAL.—In the case of Lifetime
 12 Savings Accounts (within the meaning of section
 13 530A), the term ‘excess contributions’ means the
 14 sum of—

15 “(A) the amount by which the amount con-
 16 tributed for the calendar year to such accounts
 17 (other than qualified rollover contributions (as
 18 defined in section 530A(d))) exceeds the con-
 19 tribution limit under section 530A(c)(1), and

20 “(B) the amount determined under this
 21 subsection for the preceding calendar year, re-
 22 duced by the excess (if any) of the maximum
 23 amount allowable as a contribution under sec-
 24 tion 530A(c)(1) for the calendar year over the

1 amount contributed to the accounts for the cal-
 2 endar year.

3 “(2) SPECIAL RULE.—A contribution shall not
 4 be taken into account under paragraph (1) if such
 5 contribution (together with the amount of net in-
 6 come attributable to such contribution) is returned
 7 to the beneficiary before July 1 of the year following
 8 the year in which the contribution is made.”.

9 (c) FAILURE TO PROVIDE REPORTS ON LIFETIME
 10 SAVINGS ACCOUNTS.—Paragraph (2) of section 6693(a)
 11 of the Internal Revenue Code of 1986 (relating to failure
 12 to provide reports on individual retirement accounts or an-
 13 nnuities) is amended by striking “and” at the end of sub-
 14 paragraph (D), by striking the period at the end of sub-
 15 paragraph (E) and inserting “, and”, and by adding at
 16 the end the following new subparagraph:

17 “(F) section 530A(g) (relating to Lifetime
 18 Savings Accounts).”.

19 (d) ROLLOVERS FROM CERTAIN OTHER TAX-FREE
 20 ACCOUNTS.—

21 (1) QUALIFIED STATE TUITION PLANS.—Para-
 22 graph (3) of section 529(c) of the Internal Revenue
 23 Code of 1986 (relating to distributions) is amended
 24 by adding at the end the following new subpara-
 25 graph:

1 “(E) ROLLOVERS TO LIFETIME SAVINGS
2 ACCOUNTS.—

3 “(i) IN GENERAL.—Subparagraph (A)
4 shall not apply to the qualified portion of
5 any distribution which, before January 1,
6 2006, and within 60 days of such distribu-
7 tion, is transferred to a Lifetime Savings
8 Account (within the meaning of section
9 530A) of the designated beneficiary. This
10 subparagraph shall only apply to distribu-
11 tions in accordance with the previous sen-
12 tence from an account which was in exist-
13 ence with respect to such designated bene-
14 ficiary on December 31, 2003.

15 “(ii) QUALIFIED PORTION.—For pur-
16 poses of this subparagraph, the term
17 ‘qualified portion’ means the amount equal
18 to the sum of—

19 “(I) the lesser of \$50,000 or the
20 amount which is in the account of the
21 designated beneficiary on December
22 31, 2003,

23 “(II) any contributions to such
24 account for the taxable year beginning

1 after December 31, 2004, and before
 2 January 1, 2005, and

3 “(III) any earnings of such ac-
 4 count for such year.

5 “(iii) LIMITATION.—The sum of the
 6 amounts taken into account under clause
 7 (ii)(II) with respect to all accounts of the
 8 designated beneficiary plus any amounts
 9 with respect to such designated beneficiary
 10 taken into account under section
 11 530(d)(9)(B)(ii) shall not exceed the sum
 12 of \$5,000 plus the earnings attributable to
 13 such amounts.”.

14 (2) COVERDELL EDUCATION SAVINGS AC-
 15 COUNTS.—Subsection (d) of section 530 of such
 16 Code (relating to tax treatment of distributions) is
 17 amended by inserting at the end the following new
 18 paragraph:

19 “(9) ROLLOVERS TO LIFETIME SAVINGS AC-
 20 COUNTS.—

21 “(A) IN GENERAL.—Paragraph (1) shall
 22 not apply to the qualified portion of any
 23 amount paid or distributed from a Coverdell
 24 education savings account to the extent that the
 25 amount received is paid, before January 1,

1 2006, and not later than the 60th day after the
2 date of such payment or distribution, into a
3 Lifetime Savings Account (within the meaning
4 of section 530A) for the benefit of the same
5 beneficiary. This paragraph shall only apply to
6 amounts paid or distributed in accordance with
7 the preceding sentence from an account which
8 was in existence with respect to such bene-
9 ficiary on December 31, 2003.

10 “(B) QUALIFIED PORTION.—For purposes
11 of this paragraph, the term ‘qualified portion’
12 means the amount equal to the sum of—

13 “(i) the amount which is in the ac-
14 count of the beneficiary on December 31,
15 2003,

16 “(ii) any contributions to such ac-
17 count for the taxable year beginning after
18 December 31, 2004, and before January 1,
19 2005, and

20 “(iii) any earnings of such account for
21 such year.

22 “(C) LIMITATION.—The sum of the
23 amounts taken into account under subpara-
24 graph (B)(ii) with respect to all accounts of the
25 beneficiary plus any amounts with respect to

1 such beneficiary taken into account under sec-
2 tion 529(c)(3)(E)(ii)(II) shall not exceed the
3 sum of \$5,000 plus the earnings attributable to
4 such amounts.”.

5 (e) CONFORMING AMENDMENT.—The table of parts
6 for subchapter F of chapter 1 of the Internal Revenue
7 Code of 1986 is amended by adding at the end the fol-
8 lowing new item:

 “Part IX. Lifetime Savings Accounts.”.

9 (f) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 2004.

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