

104TH CONGRESS
2D SESSION

H. R. 4253

To enhance the financial security of children by providing for contributions
by the Federal Government to Child Retirement Accounts.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 27, 1996

Mr. HOUGHTON (for himself and Mrs. KENNELLY) introduced the following
bill; which was referred to the Committee on Ways and Means

A BILL

To enhance the financial security of children by providing
for contributions by the Federal Government to Child
Retirement 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. SHORT TITLE.**

4 This Act may be cited as the “Children’s Financial
5 Security Act of 1996”.

1 **SEC. 2. FEDERAL CONTRIBUTIONS TO CHILD RETIREMENT**
2 **ACCOUNTS.**

3 (a) IN GENERAL.—As soon as practicable after the
4 close of each calendar year, the Secretary of the Treasury
5 or his delegate shall transfer for such calendar year, from
6 amounts in the general fund of the Treasury not otherwise
7 appropriated, \$1,000 to the Child Retirement Account of
8 each individual who is an eligible child for such calendar
9 year.

10 (b) ELIGIBLE CHILD.—For purposes of this section,
11 the term “eligible child” means, with respect to any cal-
12 endar year, any individual who, as of the close of such
13 calendar year—

14 (1) is a citizen or resident alien of the United
15 States, and

16 (2) has not attained age 6.

17 (c) REDUCTION IN CONTRIBUTION FOR CHILDREN
18 OF HIGH INCOME PARENTS.—

19 (1) IN GENERAL.—If, with respect to an eligible
20 child, the adjusted gross income of the applicable
21 taxpayer for the taxable year ending with or within
22 a calendar year exceeds the threshold amount, the
23 \$1,000 amount in subsection (a) with respect to
24 such child for such calendar year shall be reduced
25 (but not below zero) by the amount which bears the

1 same ratio to \$1,000 as such excess bears to the
2 phaseout range.

3 (2) APPLICABLE TAXPAYER MAY MAKE-UP RE-
4 DUCED CONTRIBUTION.—If there is a reduction
5 under this subsection in the amount transferred
6 under subsection (a) to the Child Retirement Ac-
7 count of an eligible child for any calendar year, the
8 applicable taxpayer with respect to such child may
9 (at such time and in such manner as the Secretary
10 may prescribe) transfer an amount equal to the
11 amount of such reduction to the Child Retirement
12 Account of such child.

13 (d) CHILDREN BELOW AGE 19 AS OF ENACTMENT.—

14 (1) IN GENERAL.—In the case of an individual
15 who, as of the close of 1996—

16 (A) is a citizen or resident alien of the
17 United States, and

18 (B) has not attained age 19,
19 the applicable taxpayer with respect to such individ-
20 ual may (at such time and in such manner as the
21 Secretary may prescribe) contribute to the Child Re-
22 tirement Account of such child an amount equal to
23 the lesser of \$6,000 or the product of \$1,000 and
24 the age of such child as of the close of 1996. Any

1 contribution under the preceding sentence may be
2 made only during 1997 and 1998.

3 (2) REDUCTION OF CONTRIBUTION FOR CHIL-
4 DREN OF HIGH INCOME PARENTS.—If, with respect
5 to an individual described in paragraph (1), the ad-
6 justed gross income of the applicable taxpayer for
7 the taxable year ending with or within 1997 exceeds
8 the threshold amount, the amount otherwise deter-
9 mined under paragraph (1) with respect to such in-
10 dividual shall be reduced (but not below zero) by the
11 amount which bears the same ratio to the amount
12 so otherwise determined as such excess bears to the
13 phaseout range.

14 (e) DEFINITIONS.—For purposes of subsections (c)
15 and (d)—

16 (1) PHASEOUT RANGE.—The term “phaseout
17 range” means—

18 (A) \$50,000 in the case of a joint return,

19 (B) \$33,000 in the case of an individual
20 who is not married, and

21 (C) \$25,000 in the case of a married indi-
22 vidual filing a separate return.

23 (2) THRESHOLD AMOUNT.—The term “thresh-
24 old amount” means—

1 (A) \$100,000 in the case of a joint return
2 for such taxable year,

3 (B) \$67,000 in the case of an individual
4 who is not married, and

5 (C) \$50,000 in the case of a married indi-
6 vidual filing a separate return.

7 (3) APPLICABLE TAXPAYER.—The term “appli-
8 cable taxpayer” means, with respect to an eligible
9 child—

10 (A) the taxpayer to whom a deduction is
11 allowable under section 151(c) of the Internal
12 Revenue Code of 1986 for such child, or

13 (B) if no taxpayer is described in subpara-
14 graph (A), such child.

15 **SEC. 3. CHILD RETIREMENT ACCOUNTS.**

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

20 **“PART VIII—CHILD RETIREMENT**
21 **ACCOUNTS**

“Sec. 529. Child Retirement Accounts.

22 **“SEC. 529. CHILD RETIREMENT ACCOUNTS.**

23 “(a) CHILD RETIREMENT ACCOUNT.—For purposes
24 of this part, the term ‘Child Retirement Account’ means

1 any trust created or organized in the United States for
2 the exclusive benefit of the account beneficiary but only
3 if the written governing instrument creating the trust
4 meets the following requirements:

5 “(1) No contribution will be accepted unless it
6 is in cash.

7 “(2) The only contributions which will be ac-
8 cepted are—

9 “(A) contributions under section 2 of the
10 Children’s Financial Security Act of 1996,

11 “(B) contributions of not more than \$100
12 for each calendar year after the calendar year
13 in which the account beneficiary attains age 5
14 and before the calendar year in which such ben-
15 efiary attains age 19, and

16 “(C) trustee-to-trustee transfers to such
17 trust from another Child Retirement Account of
18 the account beneficiary.

19 “(3) The assets of the trust are invested only
20 in an approved mutual fund.

21 “(4) The requirements of paragraphs (2)
22 through (6) of section 408(a) are met.

23 “(b) TAX TREATMENT OF ACCOUNTS.—

24 “(1) IN GENERAL.—A Child Retirement Ac-
25 count is exempt from taxation under this subtitle

1 unless such account has ceased to be a Child Retirement
2 Account. Notwithstanding the preceding sentence,
3 any such Account is subject to the taxes imposed
4 by section 511 (relating to imposition of tax
5 on unrelated business income of charitable, etc., or
6 organizations).

7 “(2) ACCOUNT TERMINATIONS.—Rules similar
8 to the rules of paragraphs (2) and (4) of section
9 408(e) shall apply to Child Retirement Accounts; ex-
10 cept that such paragraph (4) shall not apply to loans
11 which are qualified special purpose distributions.

12 “(c) TAX TREATMENT OF DISTRIBUTIONS.—

13 “(1) IN GENERAL.—

14 “(A) WITHHOLDING.—The trustee of a
15 Child Retirement Account shall deduct and
16 withhold from any distribution from such Ac-
17 count a tax equal to 20 percent of such dis-
18 tribution.

19 “(B) NO OTHER TAX.—Distributions from
20 a Child Retirement Account shall not be includ-
21 ible in gross income.

22 “(C) CREDIT FOR AMOUNTS WITHHELD
23 ONLY ON QUALIFIED SPECIAL PURPOSE LOAN
24 DISTRIBUTIONS WHICH ARE REPAID.—In the
25 case of an amount withheld under subpara-

1 graph (A) on a qualified special purpose dis-
2 tribution from a Child Retirement Account in
3 the form of a loan, there shall be allowed as a
4 credit against the tax imposed by this subtitle
5 for any taxable year an amount which bears the
6 same ratio to the amount withheld as the prin-
7 cipal amount of such loan which is repaid dur-
8 ing such taxable year bears to the total prin-
9 cipal amount of the loan. The credit allowed
10 under the preceding sentence shall be treated as
11 a credit allowed under subpart C of part IV of
12 subchapter A of this chapter and shall be al-
13 lowed to the account beneficiary.

14 “(2) PENALTY ON DISTRIBUTIONS NOT USED
15 FOR QUALIFIED PURPOSES.—If any distribution is
16 made from a Child Retirement Account which is not
17 a qualified distribution, the account beneficiary’s tax
18 imposed by this chapter for the taxable year in
19 which such distribution is made shall be increased by
20 an amount equal to 50 percent of such distribution.

21 “(3) QUALIFIED DISTRIBUTION.—For purposes
22 of paragraph (2), the term ‘qualified distribution’
23 means any distribution—

24 “(A) made on or after the date on which
25 the account beneficiary attains age 59½,

1 “(B) made to a beneficiary (or to the es-
2 tate of the individual) on or after the death of
3 the account beneficiary,

4 “(C) attributable to the account bene-
5 ficiary being disabled (within the meaning of
6 section 72(m)(7)), or

7 “(D) which is a qualified special purpose
8 distribution.

9 “(4) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of paragraph (3), the term
10 ‘qualified special purpose distribution’ means any
11 distribution (including in the form of a loan) from
12 a Child Retirement Account to the account bene-
13 ficiary—
14 ficiary—

15 “(A) if such distribution is a qualified
16 first-time homebuyer distribution, or

17 “(B) to the extent the aggregate distribu-
18 tions from the Account does not exceed the
19 qualified higher education expenses of the ac-
20 count beneficiary for the taxable year in which
21 received.

22 Such term shall not include any distribution from
23 such an Account during a calendar year to the ex-
24 tent such distribution, when added to the amount of
25 all prior distributions from such Account during the

1 calendar year and all prior calendar years, exceeds
2 an amount equal to 50 percent of the balance in
3 such Account as of the close of the prior calendar
4 year.

5 “(5) QUALIFIED FIRST-TIME HOMEBUYER DIS-
6 TRIBUTIONS.—

7 “(A) IN GENERAL.—For purposes of this
8 subsection, the term ‘qualified first-time home-
9 buyer distribution’ means any payment or dis-
10 tribution received by the account beneficiary to
11 the extent such payment or distribution is used
12 by such beneficiary within a reasonable period
13 to pay qualified acquisition costs with respect to
14 a principal residence for such beneficiary as a
15 first-time homebuyer.

16 “(B) QUALIFIED ACQUISITION COSTS.—
17 For purposes of this paragraph, the term
18 ‘qualified acquisition costs’ means the costs of
19 acquiring, constructing, or reconstructing a res-
20 idence. Such term includes any usual or reason-
21 able settlement, financing, or other closing
22 costs.

23 “(C) FIRST-TIME HOMEBUYER; OTHER
24 DEFINITIONS.—For purposes of this para-
25 graph—

1 “(i) FIRST-TIME HOMEBUYER.—The
2 term ‘first-time homebuyer’ means any in-
3 dividual if such individual (and, if married,
4 such individual’s spouse) had no present
5 ownership interest in a principal residence
6 during the 3-year period ending on the
7 date of acquisition of the principal resi-
8 dence to which this paragraph applies.

9 “(ii) PRINCIPAL RESIDENCE.—The
10 term ‘principal residence’ has the same
11 meaning as when used in section 1034.

12 “(iii) DATE OF ACQUISITION.—The
13 term ‘date of acquisition’ means the date—

14 “(I) on which a binding contract
15 to acquire the principal residence to
16 which subparagraph (A) applies is en-
17 tered into, or

18 “(II) on which a binding contract
19 to construct or reconstruct such a
20 principal residence is entered into.

21 “(6) QUALIFIED HIGHER EDUCATION EX-
22 PENSES.—For purposes of this subsection—

23 “(A) IN GENERAL.—The term ‘qualified
24 higher education expenses’ means—

1 “(i) expenses for tuition, fees, books,
2 supplies, and equipment required for the
3 enrollment or attendance of the account
4 beneficiary at an eligible educational insti-
5 tution (as defined in section 135(c)(3)),
6 and

7 “(ii) reasonable living expenses while
8 away from home while attending such in-
9 stitution.

10 “(B) COORDINATION WITH SAVINGS BOND
11 PROVISIONS.—The amount of qualified higher
12 education expenses for any taxable year shall be
13 reduced by any amount excludable from gross
14 income under section 135.

15 “(7) EXCEPTIONS FROM WITHHOLDING TAX
16 AND PENALTY FOR TRUSTEE-TO-TRUSTEE TRANS-
17 FERS.—Paragraphs (1)(A) and (2) shall not apply
18 to any trustee-to-trustee transfers from a Child Re-
19 tirement Account to another Child Retirement Ac-
20 count of the same account beneficiary.

21 “(d) APPROVED MUTUAL FUND.—For purposes of
22 this section—

23 “(1) IN GENERAL.—The term ‘approved mutual
24 fund’ means any fund of any regulated investment
25 company (as defined in section 851(a)) if—

1 “(A) an election under section 851(b)(1) is
2 in effect with respect to such company, and

3 “(B) such fund is designated by the Fed-
4 eral Retirement Thrift Investment Board for
5 purposes of this section.

6 “(2) STANDARDS FOR DESIGNATION.—A fund
7 may be designated under paragraph (1) only if the
8 Federal Retirement Thrift Investment Board deter-
9 mines that it is reasonable to expect that not less
10 than 75 percent of the total value of the assets of
11 such fund are represented by equity securities.

12 “(e) CERTAIN RULES TO APPLY.—Rules similar to
13 the following rules shall apply for purposes of this section:

14 “(1) Section 219(f)(3) (relating to time when
15 contributions deemed made).

16 “(2) Section 408(g) (relating to community
17 property laws).

18 “(3) Section 408(h) (relating to custodial ac-
19 counts).

20 “(f) REPORTS.—The Secretary may require the
21 trustee of a Child Retirement Account to make such re-
22 ports regarding such Account to the Secretary and to the
23 account beneficiary with respect to contributions, distribu-
24 tions, and such other matters as the Secretary determines
25 appropriate. The reports required by this subsection shall

1 be filed at such time and in such manner and furnished
2 to such individuals at such time and in such manner as
3 may be required by the Secretary.”

4 (b) CONFORMING AMENDMENTS.—

5 (1) TAX ON PROHIBITED TRANSACTIONS.—

6 (A) Section 4975 of such Code (relating to
7 tax on prohibited transactions) is amended by
8 adding at the end of subsection (c) the follow-
9 ing new paragraph:

10 “(5) SPECIAL RULE FOR CHILD RETIREMENT
11 ACCOUNTS.—An individual for whose benefit a Child
12 Retirement Account (within the meaning of section
13 529(a)) is established shall be exempt from the tax
14 imposed by this section with respect to any trans-
15 action concerning such account (which would other-
16 wise be taxable under this section) if, with respect
17 to such transaction, the account ceases to be a Child
18 Retirement Account by reason of the application of
19 section 529(b)(2) to such Account.”

20 (B) Paragraph (1) of section 4975(e) of
21 such Code is amended by striking “or” at the
22 end of subparagraph (D), by redesignating sub-
23 paragraph (E) as subparagraph (F), and by in-
24 serting after subparagraph (D) the following
25 new subparagraph:

1 “(E) a Child Retirement Account described
2 in section 529(a), or”.

3 (2) FAILURE TO PROVIDE REPORTS ON CHILD
4 RETIREMENT ACCOUNTS.—Paragraph (2) of section
5 6693(a) of such Code is amended by striking “and”
6 at the end of subparagraph (A), by striking the pe-
7 riod at the end of subparagraph (B) and inserting
8 “, and”, and by adding at the end the following new
9 subparagraph:

10 “(C) section 529(f) (relating to Child Re-
11 tirement Accounts).”

12 (3) CLERICAL AMENDMENT.—The table of
13 parts for subchapter F of chapter 1 of such Code is
14 amended by adding at the end the following new
15 item:

 “Part VIII. Child Retirement Accounts.”

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 1996.

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