

104TH CONGRESS
2D SESSION

H. R. 4311

To amend the Internal Revenue Code of 1986 to allow penalty-free withdrawals from IRAs for certain purposes, to increase the amount of tax deductible IRA contributions, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 28, 1996

Mr. McCOLLUM 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 allow penalty-free withdrawals from IRAs for certain purposes, to increase the amount of tax deductible IRA contributions, 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,*

3 **SECTION 1. PENALTY-FREE DISTRIBUTIONS FROM IRAS**
4 **AND EXCLUSION FROM INCOME OF CERTAIN**
5 **IRA DISTRIBUTIONS WHICH ARE REPAID.**

6 (a) IN GENERAL.—Paragraph (2) of section 72(t) of
7 the Internal Revenue Code of 1986 (relating to exceptions
8 to 10-percent additional tax on early distributions from

1 qualified retirement plans) is amended by adding at the
2 end the following new subparagraph:

3 “(D) DISTRIBUTIONS FROM CERTAIN
4 PLANS FOR FIRST HOME PURCHASES, HIGHER
5 EDUCATION EXPENSES, QUALIFIED LONG TERM
6 CARE EXPENSES, AND QUALIFIED UNEMPLOY-
7 MENT DISTRIBUTIONS.—Distributions to an
8 employee from an individual retirement plan—

9 “(i) which are qualified first-time
10 homebuyer distributions,

11 “(ii) to the extent such distributions
12 do not exceed the qualified higher edu-
13 cation expenses of the taxpayer for the tax-
14 able year,

15 “(iii) to the extent such distributions
16 do not exceed the expenses paid by the tax-
17 payer during the taxable year for qualified
18 long-term care services (as defined in sec-
19 tion 7702B(c)), or

20 “(iv) which are qualified unemploy-
21 ment distributions.”

22 (b) DEFINITIONS.—Section 72(t) of such Code is
23 amended by adding at the end the following new para-
24 graphs:

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

3 “(A) IN GENERAL.—For purposes of para-
4 graph (2)(D)(i), the term ‘qualified first-time
5 homebuyer distribution’ means any payment or
6 distribution received by an individual to the ex-
7 tent such payment or distribution is used by the
8 individual before the close of the 60th day after
9 the day on which such payment or distribution
10 is received to pay qualified acquisition costs
11 with respect to a principal residence for such
12 individual as a first-time homebuyer.

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

20 “(C) FIRST-TIME HOMEBUYER; OTHER
21 DEFINITIONS.—For purposes of this para-
22 graph—

23 “(i) FIRST-TIME HOMEBUYER.—The
24 term ‘first-time homebuyer’ means any in-
25 dividual if such individual (and, if married,

1 such individual’s spouse) had no present
2 ownership interest in a principal residence
3 during the 3-year period ending on the
4 date of acquisition of the principal resi-
5 dence to which this paragraph applies.

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

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

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

15 “(II) on which a binding contract
16 to construct or reconstruct such a
17 principal residence is entered into.

18 “(D) SPECIAL RULE WHERE DELAY IN AC-
19 QUISITION.—If any payment or distribution
20 fails to meet the requirements of subparagraph
21 (A) solely by reason of a delay or cancellation
22 of the purchase, construction, or reconstruction
23 of the residence, the amount of the payment or
24 distribution may be contributed to an individual
25 retirement account as provided in subsection

1 (d)(3)(A)(i) of section 408 (determined by sub-
2 stituting ‘120th day’ for ‘60th day’ in such sub-
3 section), except that—

4 “(i) subsection (d)(3)(B) of such sec-
5 tion shall not be applied to such contribu-
6 tion, and

7 “(ii) such amount shall not be taken
8 into account in applying subsection
9 (d)(3)(B) to any other amount.

10 “(3) QUALIFIED HIGHER EDUCATION EX-
11 PENSES.—For purposes of paragraph (2)(D)(ii)—

12 “(A) IN GENERAL.—The term ‘qualified
13 higher education expenses’ means tuition, fees,
14 books, supplies, and equipment required for the
15 enrollment or attendance of—

16 “(i) the taxpayer,

17 “(ii) the taxpayer’s spouse, or

18 “(iii) the taxpayer’s dependent (as de-
19 fined in section 152),

20 at an eligible educational institution (as defined
21 in section 135(c)(3)).

22 “(B) COORDINATION WITH SAVINGS BOND
23 PROVISIONS.—The amount of qualified higher
24 education expenses for any taxable year shall be

1 reduced by any amount excludable from gross
2 income under section 135.

3 “(8) QUALIFIED UNEMPLOYMENT DISTRIBUTION.—For purposes of paragraph (2)(D)(iv), the
4 term ‘qualified unemployment distribution’ means a
5 distribution from an individual retirement plan to an
6 individual after the individual or the individual’s
7 spouse has received benefits under any Federal or
8 State unemployment compensation law for not less
9 than 12 consecutive weeks by reason of separation
10 from employment, if such distribution is made dur-
11 ing the taxable year during which such unemploy-
12 ment compensation is paid or the succeeding taxable
13 year.”

15 (c) IRA DISTRIBUTIONS TO PAY FINANCIALLY DEV-
16 ASTATING MEDICAL EXPENSES.—

17 (1) IN GENERAL.—Section 72(t)(3)(A) of such
18 Code is amended by striking “, (B),”.

19 (2) CERTAIN LINEAL DESCENDANTS AND AN-
20 CESTORS TREATED AS DEPENDENTS.—Subpara-
21 graph (B) of section 72(t)(2) of such Code is
22 amended by striking “medical care” and all that fol-
23 lows and inserting “medical care determined—

1 “(i) without regard to whether the
2 employee itemizes deductions for such tax-
3 able year, and

4 “(ii) in the case of an individual re-
5 tirement plan, by treating such employee’s
6 dependents as including—

7 “(I) all children and grand-
8 children of the employee or such em-
9 ployee’s spouse, and

10 “(II) all ancestors of the em-
11 ployee or such employee’s spouse.”

12 (3) CONFORMING AMENDMENT.—Subparagraph
13 (B) of section 72(t)(2) of such Code is amended by
14 striking “or (C)” and inserting “, (C), or (D)”.

15 (d) EXCLUSION FROM INCOME OF CERTAIN DIS-
16 TRIBUTIONS WHICH ARE REPAYED.—Section 408 of the In-
17 ternal Revenue Code of 1986 (relating to individual retire-
18 ment accounts) is amended by redesignating subsection
19 (p) as subsection (q) and by inserting after subsection (o)
20 the following new subsection:

21 “(p) REPAYABLE DISTRIBUTIONS FROM INDIVIDUAL
22 RETIREMENT ACCOUNTS FOR FIRST HOME PURCHASES,
23 HIGHER EDUCATION EXPENSES, QUALIFIED LONG TERM
24 CARE EXPENSES, QUALIFIED UNEMPLOYMENT DIS-

1 TRIBUTIONS, AND FINANCIALLY DEVASTATING MEDICAL
2 EXPENSES.—

3 “(1) IN GENERAL.—Notwithstanding any other
4 provision of this section, gross income shall not in-
5 clude any qualified distribution.

6 “(2) REPAYMENT REQUIREMENT.—

7 “(A) ADDITION TO TAX.—If the required
8 recontributions made by the taxpayer during
9 the repayment period are less than the qualified
10 distribution, the tax imposed by this chapter for
11 the last taxable year in the repayment period
12 shall be increased by the amount determined
13 under subparagraph (B).

14 “(B) DETERMINATION OF AMOUNT.—The
15 amount determined under this subparagraph
16 shall be an amount which bears the same ratio
17 to the tax benefit amount as—

18 “(i) the excess (if any) of the qualified
19 distribution over required recontributions
20 made during the repayment period, bears
21 to

22 “(ii) the qualified distribution.

23 “(C) REPAYMENT PERIOD.—For purposes
24 of this subsection, the term ‘repayment period’
25 means, with respect to any qualified distribu-

1 tion, the 5-taxable year period beginning after
2 the taxable year in which such distribution is
3 received.

4 “(D) TAX BENEFIT AMOUNT.—For pur-
5 poses of this subsection, the term ‘tax benefit
6 amount’ means, with respect to any qualified
7 distribution, the sum of—

8 “(i) the aggregate reduction in the tax
9 imposed by this chapter for the taxable
10 year in which such distribution is received
11 by reason of the exclusion under paragraph
12 (1), and

13 “(ii) interest on the amount of such
14 reduction for the repayment period com-
15 puted at the Federal mid-term rate (within
16 the meaning of section 1274(d)(1)) and
17 compounded annually.

18 “(3) QUALIFIED DISTRIBUTION.—For purposes
19 of this subsection, the term ‘qualified distribution’
20 means any distribution described in subparagraph
21 (B) or (D) of section 72(d)(2) to an individual from
22 an individual retirement plan maintained for the
23 benefit of such individual.

24 “(4) RECONTRIBUTION OF QUALIFIED DIS-
25 TRIBUTIONS.—

1 “(A) IN GENERAL.—If an individual re-
2 ceived a qualified distribution, such individual
3 shall make required recontributions in the man-
4 ner provided in this paragraph to an individual
5 retirement plan maintained for the benefit of
6 such individual.

7 “(B) METHOD OF MAKING RECONTRIBU-
8 TION.—Any required retribution—

9 “(i) shall be made during the repay-
10 ment period for the qualified distribution,

11 “(ii) shall not exceed the qualified dis-
12 tribution reduced by any prior recontribu-
13 tion under this paragraph with respect to
14 such distribution, and

15 “(iii) shall be made by making a pay-
16 ment in cash to an individual retirement
17 plan for the benefit of such individual.

18 An individual making a required retribution
19 under this paragraph shall designate (in the
20 manner prescribed by the Secretary) such con-
21 tribution as a required retribution under
22 this paragraph and shall specify the qualified
23 distribution with respect to which such recon-
24 tribution is being made.

1 “(C) TREATMENT AS ROLLOVER CON-
 2 TRIBUTION.—For purposes of this title, any re-
 3 quired recontribution under this paragraph
 4 shall be treated as a rollover contribution de-
 5 scribed in subsection (d)(3).

6 “(7) OTHER SPECIAL RULES.—

7 “(A) BASIS RULES NOT AFFECTED.—The
 8 tax treatment under this chapter of any dis-
 9 tribution (other than a qualified distribution)
 10 shall be determined as if this subsection had
 11 not been enacted.

12 “(B) AGGREGATION RULE.—For purposes
 13 of this subsection, all qualified distributions re-
 14 ceived by an individual during a taxable year
 15 shall be treated as a single distribution.”

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

19 **SEC. 2. INCREASE IN AMOUNT OF DEDUCTIBLE IRA CON-**
 20 **TRIBUTIONS AND INDEXING FOR INFLATION.**

21 (a) INCREASE IN MAXIMUM AMOUNT OF DEDUC-
 22 TION.—Subparagraph (A) of section 219(b)(1) of the In-
 23 ternal Revenue Code of 1986 (relating to maximum
 24 amount of deduction) is amended by striking “\$2,000”
 25 and inserting “\$4,500”.

1 (b) INFLATION ADJUSTMENTS.—Subsection (f) of
2 section 219 of such Code is amended by adding at the
3 end the following new paragraph:

4 “(8) INFLATION ADJUSTMENTS.—In the case of
5 a taxable year beginning in a calendar year after
6 1997, each dollar amount set forth in subsections
7 (b)(1)(A) and (g)(3)(B) shall be increased by an
8 amount equal to—

9 “(A) such dollar amount, multiplied by

10 “(B) the cost-of-living adjustment deter-
11 mined under section 1(f)(3) for such calendar
12 year by substituting ‘calendar year 1996’ for
13 ‘calendar year 1992’ in subparagraph (B)
14 thereof.

15 If any increase determined under the preceding sen-
16 tence is not a multiple of \$100, such increase shall
17 be rounded to the nearest multiple of \$100.”

18 (c) CONFORMING AMENDMENTS.—

19 (1) Subsections (a)(1) and (b)(2)(B) of section
20 408 of such Code are each amended by striking
21 “\$2,000” and inserting “the dollar limitation in ef-
22 fect under section 219(b)(1)(A)”.

23 (2) Subsection (j) of section 408 of such Code
24 is amended by striking “the \$2,000 amounts con-

1 tained” and inserting “the dollar limitations referred
2 to”.

3 (d) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 1996.

6 **SEC. 3. ELIMINATION OF PHASE-OUT FOR INDIVIDUALS**
7 **NOT ACTIVE PARTICIPANTS IN DEFINED CON-**
8 **TRIBUTION PLANS AND INCREASE OF IN-**
9 **COME LIMITS FOR OTHERS.**

10 (a) **ELIMINATION OF PHASE-OUT FOR INDIVIDUALS**
11 **NOT ACTIVE PARTICIPANTS IN DEFINED CONTRIBUTION**
12 **PLAN.**—Paragraph (5) of section 219(g) of the Internal
13 Revenue Code of 1986 (relating to active participant) is
14 amended by striking the period at the end of subpara-
15 graph (B) and inserting a comma, and by inserting after
16 subparagraph (B) the following:

17 “if such plan, contract, pension, or trust is a defined
18 contribution plan (as defined in section 414(i)).”

19 (b) **INCREASE IN INCOME PHASEOUT LEVELS.**—

20 (1) **IN GENERAL.**—Subparagraph (B) of section
21 219(g)(3) of such Code (relating to applicable dollar
22 amount) is amended—

23 (A) by striking “\$40,000” and inserting
24 “\$120,000”, and

1 (B) by striking “\$25,000” and inserting
2 “\$75,000”.

3 (2) CROSS REFERENCE TO INFLATION ADJUST-
4 MENT.—Paragraph (3) of section 219(g) of such
5 Code is amended by adding at the end the following
6 new subparagraph:

7 “(C) CROSS REFERENCE.—

8 **“For inflation adjustment of dollar amounts set
9 forth in subparagraph (B), see subsection (f)(8).”**

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

11 **SEC. 4. WITHHOLDING, CONTRIBUTION LIMITS, AND**
12 **MATCHING CONTRIBUTION NONDISCRIMINA-**
13 **TION REQUIREMENTS FOR 401(k) PLANS.**

14 (a) INAPPLICABILITY OF WITHHOLDING REQUIRE-
15 MENT TO 401(k) DISTRIBUTIONS.—

16 (1) IN GENERAL.—Paragraph (3) of section
17 3405(e) of the Internal Revenue Code of 1986 (re-
18 lating to eligible rollover distribution) is amended by
19 striking the period at the end and inserting the fol-
20 lowing: “, except that such term shall not include a
21 distribution from a qualified cash or deferred ar-
22 rangement (as defined in section 401(k)).”

1 (2) EFFECTIVE DATE.—The amendment made
2 by this subsection shall apply to distributions made
3 after December 31, 1996.

4 (b) INCREASE IN CONTRIBUTION LIMITS FOR 401(k)
5 PLANS.—

6 (1) IN GENERAL.—Paragraph (1) of section
7 402(g) of such Code (relating to limitation on exclu-
8 sion for elective deferrals) is amended by striking
9 “\$7,000” and inserting “\$20,000”.

10 (2) CONFORMING AMENDMENT.—Paragraph (5)
11 of section 402(g) of such Code (relating to cost-of-
12 living adjustment) is amended by striking “\$7,000”
13 and inserting “\$20,000”.

14 (3) EFFECTIVE DATE.—The amendments made
15 by this subsection shall apply to taxable years begin-
16 ning after December 31, 1996.

17 (c) ALTERNATIVE METHODS FOR MEETING SECTION
18 401(k) Nondiscrimination Test and Nondiscrimination
19 Test for Matching Contributions.—

20 (1) SECTION 401(k) NONDISCRIMINATION
21 TEST.—Subsection (k) of section 401 of such Code
22 (relating to cash or deferred arrangements) is
23 amended by adding at the end the following new
24 paragraph:

1 “(13) ADDITIONAL ALTERNATIVE METHOD OF
2 MEETING NONDISCRIMINATION REQUIREMENTS.—

3 “(A) IN GENERAL.—A cash or deferred ar-
4 rangement shall be treated as meeting the re-
5 quirements of paragraph (3)(A)(ii) if—

6 “(i) under the arrangement, the em-
7 ployer makes matching contributions on
8 behalf of each employee in an amount
9 equal to a percentage of the contributions
10 and elective deferrals of such employee,

11 “(ii) the same such percentage applies
12 to all employees of the employer, and

13 “(iii) not less than biannually, each
14 employee eligible to participate under the
15 arrangement is given written notice of the
16 employee’s rights and obligations under the
17 arrangement which meets the requirements
18 of clauses (i) and (ii) of paragraph
19 (12)(D).

20 “(B) SPECIAL RULES REGARDING IN-
21 CREASE AND DECREASE IN MATCHING CON-
22 TRIBUTIONS.—

23 “(i) INCREASE IN RATE OF MATCHING
24 CONTRIBUTIONS.—An arrangement shall
25 not be treated as meeting the requirement

1 of subparagraph (A)(ii) if the rate of the
2 employer's matching contributions in-
3 creases as the rate of an employee's con-
4 tributions or elective deferrals increases.

5 “(ii) PERMISSIBLE DECREASE AS
6 ELECTIVE DEFERRALS AND CONTRIBU-
7 TIONS INCREASE.—An arrangement shall
8 not fail to be treated as meeting the re-
9 quirement of subparagraph (A)(ii) by rea-
10 son of a decrease in the rate of the employ-
11 er's matching contributions as the rate of
12 the employee's contributions or elective de-
13 ferrals increases, if the same such rate of
14 decrease applies to all employees of the
15 employer.”

16 (2) NONDISCRIMINATION TEST FOR MATCHING
17 CONTRIBUTIONS.—Subsection (m) of section 401 of
18 such Code is amended by redesignating paragraph
19 (12) as paragraph (13) and by inserting after para-
20 graph (11) the following new paragraph:

21 “(12) ADDITIONAL ALTERNATIVE METHOD FOR
22 CASH OR DEFERRED ARRANGEMENTS.—A qualified
23 cash or deferred arrangement (as defined in sub-
24 section (k)) shall be treated as meeting the require-
25 ments of paragraph (2) with respect to matching

1 contributions if the arrangement meets the require-
2 ments of subsection (k)(13).”

3 (3) EFFECTIVE DATE.—The amendments made
4 by this section shall apply to years beginning after
5 December 31, 1996.

6 **SEC. 5. INHERITED IRAS AND INHERITED 401(k) AMOUNTS.**

7 (a) EXCLUSION OF INHERITED IRAS AND CERTAIN
8 INHERITED 401(k) AMOUNTS FROM GROSS ESTATE.—

9 (1) IN GENERAL.—Section 2039 of the Internal
10 Revenue Code of 1986 is amended by adding at the
11 end the following new subsection:

12 “(c) EXCLUSION OF INDIVIDUAL RETIREMENT AC-
13 COUNTS AND CERTAIN INHERITED 401(k) AMOUNTS.—
14 Notwithstanding any other provision of this section or of
15 any other provision of law, there shall be excluded from
16 the value of the gross estate any amount receivable by any
17 beneficiary (other than the executor) under—

18 “(1) an individual retirement plan of the dece-
19 dent, or

20 “(2) a qualified cash or deferred arrangement
21 (as defined in section 401(k)) of the decedent, if the
22 requirements of section 408(o)(2)(B)(iii) are met
23 with respect to such amount.”

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply to estates of decedents
3 dying after December 31, 1996.

4 (b) BENEFICIARY PERMITTED TO HOLD IRA RE-
5 CEIVED FROM DECEDENT.—

6 (1) IN GENERAL.—Paragraph (9) of section
7 401(a) of such Code (relating to required distribu-
8 tions) is amended by adding at the end the following
9 new clause:

10 “(v) EXCEPTION FOR DESIGNATED
11 BENEFICIARY OF INDIVIDUAL RETIREMENT
12 PLAN.—Notwithstanding clauses (iii) and
13 (iv), if any portion of the interest in an in-
14 dividual retirement plan is payable to (or
15 for the benefit of) a designated beneficiary
16 by reason of the death of another individ-
17 ual, the date on which distributions from
18 such plan are required to begin under this
19 paragraph shall be determined by applying
20 this paragraph as if such beneficiary were
21 the employee.”

22 (2) CONFORMING AMENDMENT.—Paragraph (3)
23 of section 408(d) of such Code is amended by strik-
24 ing subparagraph (C) (relating to denial of rollover
25 treatment for inherited accounts, etc.).

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to amounts payable
3 after, and acquisitions after, December 31, 1996.

4 (c) CONTRIBUTION OF INHERITED 401(k) AMOUNTS
5 TO IRA.—

6 (1) INCREASE OF NONDEDUCTIBLE LIMIT TO
7 ALLOW CONTRIBUTION OF INHERITED 401(k)
8 AMOUNTS.—Subparagraph (B) of section 408(o)(2)
9 of such Code (relating to nondeductible limit) is
10 amended by adding at the end the following new
11 clause:

12 “(iii) INHERITED 401(k) AMOUNTS.—
13 The nondeductible limit for the taxable
14 year shall be increased by the amount re-
15 ceived during the taxable year by the indi-
16 vidual under a qualified cash or deferred
17 arrangement (as defined in section 401(k))
18 of a decedent, if such amount is paid into
19 an individual retirement plan for the bene-
20 fit of such individual not later than the
21 60th day after the date of such receipt.”

22 (2) EXCLUSION FROM GROSS INCOME IF INHER-
23 ITED 401(k) AMOUNT CONTRIBUTED TO IRA .—Sub-
24 section (m) of section 72 of such Code (relating to
25 special rules applicable to employee annuities and

1 distributions under employee plans) is amended by
2 adding at the end the following new paragraph:

3 “(11) CONTRIBUTION OF INHERITED 401(k)
4 AMOUNTS TO IRAS.—No amount shall be included in
5 gross income under this section by reason of an
6 amount received during the taxable year by the indi-
7 vidual under a qualified cash or deferred arrange-
8 ment (as defined in section 401(k)) of a decedent,
9 if the requirements of section 408(o)(2)(B)(iii) are
10 met with respect to such amount.”

11 (3) CONFORMING AMENDMENT.—Subsection (b)
12 of section 4973 of such Code (relating to excess con-
13 tributions) is amended by adding at the end the fol-
14 lowing: “For purposes of paragraph (1)(B), the
15 amount allowable as a deduction under section 219
16 shall be increased by the amount of the increase in
17 the nondeductible limit for the taxable year by rea-
18 son of section 408(o)(2)(B)(iii).”

19 (4) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to amounts received
21 after December 31, 1996.

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