

104TH CONGRESS
1ST SESSION

S. 1212

To provide for the establishment of demonstration projects designed to determine the social, civic, psychological, and economic effects of providing to individuals and families with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals and families with low income to achieve economic self-sufficiency.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 6 (legislative day, SEPTEMBER 5), 1995

Mr. COATS (for himself and Ms. MOSELEY-BRAUN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for the establishment of demonstration projects designed to determine the social, civic, psychological, and economic effects of providing to individuals and families with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals and families with low income to achieve economic self-sufficiency.

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.**

2 This Act may be cited as the “Assets for Independ-
3 ence Act”.

4 **SEC. 2. FINDINGS.**

5 The Congress finds that—

6 (1) traditional welfare programs in the United
7 States have provided millions of low-income persons
8 with critically needed food, health, and cash benefits,
9 and such programs should be improved and contin-
10 ued;

11 (2) while such programs have sustained millions
12 of low-income persons, too rarely have such pro-
13 grams been successful in promoting and supporting
14 the transition to economic self-sufficiency;

15 (3) millions of Americans continue to live in
16 poverty and continue to receive public assistance;

17 (4) in addition to the social costs of poverty,
18 the economic costs to the Federal Government to
19 provide basic necessities to the poor exceeds
20 \$120,000,000,000 each year;

21 (5) poverty is a loss of human resources and an
22 assault on human dignity;

23 (6) poverty rates remain high and welfare de-
24 pendency continues, in part, because welfare theory
25 has taken for granted that a certain level of income
26 or consumption is necessary for one’s economic well-

1 being when, in fact, very few people manage to
2 spend or consume their way out of poverty;

3 (7) economic well-being does not come solely
4 from income, spending, and consumption, but also
5 requires savings, investment, and accumulation of
6 assets, since assets can improve economic stability,
7 connect people with a viable and hopeful future,
8 stimulate development of human and other capital,
9 enable people to focus and specialize, yield personal,
10 social, and political dividends, and enhance the wel-
11 fare of offspring;

12 (8) income-based welfare policy should be com-
13 plemented with asset-based welfare policy, because
14 while income-based policies ensure that present con-
15 sumption needs (including food, child care, rent,
16 clothing, and health care) are met, asset-based poli-
17 cies provide the means to achieve economic self-suffi-
18 ciency and, accordingly, to leave public assistance;

19 (9) there is reason to believe that the financial
20 returns, including increased income, tax revenue,
21 and decreased welfare cash assistance, of individual
22 development accounts will far exceed the cost of the
23 investment;

24 (10) the Federal Government spends more than
25 \$160,000,000,000 each year to provide middle- and

1 upper-income persons with incentives to accumulate
2 savings and assets (including tax subsidies for home
3 equity accumulation and retirement pension ac-
4 counts), but such benefits are beyond the reach of
5 most low-income persons;

6 (11) under current welfare policies, poor fami-
7 lies must deplete most of their assets before qualify-
8 ing for public assistance;

9 (12) the Federal Government should develop
10 policies that promote higher rates of personal sav-
11 ings and net private domestic investment, both of
12 which fall behind the levels attained in other highly
13 developed industrial nations; and

14 (13) the Federal Government should undertake
15 an asset-based welfare policy demonstration project
16 to determine the social, civic, psychological, and eco-
17 nomic effects of asset accumulation opportunities for
18 low-income persons, families, and communities, and
19 to determine if such a policy could provide a new
20 foundation for antipoverty policies and programs in
21 the United States.

1 **SEC. 3. INDIVIDUAL DEVELOPMENT ACCOUNT DEM-**
2 **ONSTRATION PROJECTS.**

3 (a) PURPOSE.—The purpose of this section is to pro-
4 vide for the establishment of demonstration projects de-
5 signed to determine—

6 (1) the social, civic, psychological, and economic
7 effects of providing to individuals and families with
8 limited means an incentive to accumulate assets;

9 (2) the extent to which an asset-based welfare
10 policy that promotes saving for education, home-
11 ownership, and microenterprise may be used to en-
12 able individuals and families with low income to
13 achieve economic self-sufficiency; and

14 (3) the extent to which an asset-based welfare
15 policy improves the community in which participat-
16 ing individuals and families live.

17 (b) APPLICATIONS.—

18 (1) SUBMISSION.—

19 (A) IN GENERAL.—Not later than 12
20 months after the date of the enactment of this
21 Act, a qualified entity may submit to the Sec-
22 retary an application to conduct a demonstra-
23 tion project under this section.

24 (B) QUALIFIED ENTITY.—For purposes of
25 this Act, the term “qualified entity” means ei-
26 ther—

1 (i) a not-for-profit organization de-
2 scribed in section 501(c)(3) of the Internal
3 Revenue Code of 1986 and exempt from
4 taxation under section 501(a) of such
5 Code; or

6 (ii) a State or local government agen-
7 cy submitting an application under such
8 subparagraph jointly with an organization
9 described in clause (i).

10 (2) CRITERIA.—In considering whether to ap-
11 prove any application to conduct a demonstration
12 project under this section, the Secretary shall assess
13 the following:

14 (A) SUFFICIENCY OF PROJECT.—The de-
15 gree to which the project described in the appli-
16 cation appears likely to aid project participants
17 in achieving economic self-sufficiency through
18 activities requiring qualified expenses (as de-
19 fined in section 529(c)(1) of the Internal Reve-
20 nue Code of 1986, as added by section 4 of this
21 Act). In making such assessment, the Secretary
22 shall consider the overall quality of project ac-
23 tivities in making any particular kind or com-
24 bination of qualified expenses (as so defined) to
25 be an essential feature of any project.

1 (B) ADMINISTRATIVE ABILITY.—The abil-
2 ity of the applicant to responsibly administer
3 the project.

4 (C) ABILITY TO ASSIST PARTICIPANTS.—
5 The ability of the applicant to assist project
6 participants to achieve economic self-sufficiency
7 through the development of assets.

8 (D) COMMITMENT OF NON-FEDERAL
9 FUNDS.—The aggregate amount of direct funds
10 from non-Federal public sector and private
11 sources that are formally committed to the
12 project.

13 (E) ADEQUACY OF PLAN FOR PROVIDING
14 INFORMATION FOR EVALUATION.—The ade-
15 quacy of the plan for providing information rel-
16 evant to an evaluation of the project.

17 (F) OTHER FACTORS.—Such other factors
18 as the Secretary may specify.

19 (3) PREFERENCES.—In considering an applica-
20 tion to conduct a demonstration project under this
21 section, the Secretary shall give preference to any
22 application that—

23 (A) demonstrates the willingness and abil-
24 ity to select individuals described in subsection
25 (e) who are predominantly from households in

1 which a child (or children) is living with the
2 child's biological or adoptive mother or father,
3 legal guardian, or a responsible adult relative
4 with whom the child regularly resides;

5 (B) provides a commitment of non-Federal
6 funds with a proportionately greater amount of
7 funds committed by private sector sources; and

8 (C) targets such individuals residing within
9 1 or more relatively well-defined communities or
10 neighborhoods that experience low rates of in-
11 come or employment.

12 (4) APPROVAL.—Not later than 15 months
13 after the date of the enactment of this Act, the Sec-
14 retary shall, on a competitive basis, approve such ap-
15 plications to conduct demonstration projects under
16 this section as the Secretary deems appropriate, tak-
17 ing into account the assessments required by para-
18 graphs (2) and (3). The Secretary is encouraged to
19 ensure that the applications that are approved in-
20 volve a wide range of communities (both rural and
21 urban) and diverse populations.

22 (c) DEMONSTRATION AUTHORITY; ANNUAL
23 GRANTS.—

24 (1) DEMONSTRATION AUTHORITY.—If the Sec-
25 retary approves an application to conduct a dem-

1 onstration project under this section, the Secretary
2 shall, not later than 16 months after the date of the
3 enactment of this Act, authorize the applicant to
4 conduct the project for 4 project years in accordance
5 with the approved application and this section.

6 (2) GRANT AUTHORITY.—For each project year
7 of a demonstration project conducted under this sec-
8 tion, the Secretary shall make a grant to the quali-
9 fied entity authorized to conduct the project on the
10 first day of the project year in an amount not to ex-
11 ceed the greater of—

12 (A) the aggregate amount of funds com-
13 mitted by non-Federal sources; or

14 (B) \$1,000,000.

15 (3) LIMITATION ON GRANT AMOUNTS PER
16 PROJECT.—The amount of each grant for a project
17 approved under this section shall not exceed
18 \$10,000,000.

19 (d) RESERVE FUND.—

20 (1) ESTABLISHMENT.—Each qualified entity
21 grantee under this section shall establish a Reserve
22 Fund which shall be maintained in accordance with
23 this subsection.

24 (2) AMOUNTS IN RESERVE FUND.—

1 (A) IN GENERAL.—As soon after receipt as
2 is practicable, a qualified entity grantee shall
3 deposit in the Reserve Fund established under
4 paragraph (1)—

5 (i) all funds provided to the qualified
6 entity grantee by any public or private
7 source in connection with the demonstra-
8 tion project; and

9 (ii) the proceeds from any investment
10 made under paragraph (3)(B).

11 (B) INDIVIDUAL DEVELOPMENT ACCOUNT
12 PENALTIES.—

13 (i) PENALTY AMOUNTS AUTHORIZED
14 TO BE APPROPRIATED FOR PAYMENT TO
15 THE RESERVE FUND.—With respect to the
16 Reserve Fund established by a qualified
17 entity grantee that provides financial as-
18 sistance under subsection (g) to any indi-
19 vidual who pays, or from whose individual
20 development account is paid, a penalty
21 amount, there is hereby appropriated to
22 the Reserve Fund, without fiscal year limi-
23 tation, an amount equal to such penalty
24 amount.

1 (ii) PAYMENT TO RESERVE FUND OF
2 PENALTY AMOUNTS APPROPRIATED
3 THEREFORE.—The Secretary shall make
4 quarterly estimated payments to the Re-
5 serve Fund of any penalty amount appro-
6 priated pursuant to clause (i).

7 (C) UNIFORM ACCOUNTING REGULA-
8 TIONS.—The Secretary shall prescribe regula-
9 tions with respect to accounting for amounts in
10 Reserve Funds.

11 (3) USE OF RESERVE FUND.—

12 (A) IN GENERAL.—A qualified entity
13 grantee shall use the amounts in the Reserve
14 Fund established under paragraph (1) to—

15 (i) assist participants in the dem-
16 onstration project in obtaining the skills
17 and information necessary to achieve eco-
18 nomic self-sufficiency through activities re-
19 quiring qualified expenses (as so defined);

20 (ii) provide financial assistance in ac-
21 cordance with subsection (g) to individuals
22 selected by the qualified entity grantee to
23 participate in the project;

24 (iii) administer the project; and

1 (iv) provide the research organization
2 evaluating the project under subsection (k)
3 with such information with respect to the
4 project as may be required for the evalua-
5 tion.

6 (B) AUTHORITY TO INVEST FUNDS.—

7 (i) GUIDELINES.—The Secretary shall
8 establish guidelines for investing amounts
9 in Reserve Funds in a manner that pro-
10 vides high liquidity and low risk.

11 (ii) INVESTMENT.—A qualified entity
12 grantee shall invest the amounts in its Re-
13 serve Fund that are not immediately need-
14 ed to carry out the provisions of subpara-
15 graph (A), in accordance with guidelines
16 established under clause (i).

17 (C) LIMITATION ON USES.—Not more than
18 7.5 percent of the amounts provided to a quali-
19 fied entity grantee under subsection (c)(2) shall
20 be used by the qualified entity grantee for the
21 purposes described in clauses (i), (iii), and (iv)
22 of paragraph (3)(A), except that if 2 or more
23 qualified entities are jointly administering a
24 project, no qualified entity grantee shall use

1 more than its proportional share for such pur-
2 poses.

3 (4) UNUSED FEDERAL GRANT FUNDS TRANS-
4 FERRED TO THE SECRETARY WHEN PROJECT TERMI-
5 NATES.—Notwithstanding paragraph (3), upon the
6 termination of any demonstration project authorized
7 under this section, the qualified entity grantee con-
8 ducting the project shall transfer to the Secretary an
9 amount equal to—

10 (A) the amounts in its Reserve Fund at
11 time of the termination; multiplied by

12 (B) a percentage equal to—

13 (i) the aggregate amount of grants
14 made to the qualified entity grantee under
15 subsection (c)(2); divided by

16 (ii) the aggregate amount of all mon-
17 eys provided to the qualified entity grantee
18 by all sources to conduct the project.

19 (e) ELIGIBILITY FOR ASSISTANCE.—

20 (1) IN GENERAL.—Any individual who is a
21 member of a household that meets the following re-
22 quirements shall be eligible for assistance under a
23 demonstration project conducted under this section:

24 (A) INCOME TEST.—The adjusted gross in-
25 come of the household did not exceed the in-

1 come limits established under section 32(b)(2)
2 of the Internal Revenue Code of 1986.

3 (B) NET WORTH TEST.—

4 (i) IN GENERAL.—The net worth of
5 the household, as of the close of the cal-
6 endar year preceding the determination of
7 eligibility, does not exceed \$20,000.

8 (ii) DETERMINATION OF NET
9 WORTH.—For purposes of clause (i), the
10 net worth of a household is the amount
11 equal to—

12 (I) the aggregate market value of
13 all assets that are owned in whole or
14 in part by any member of the house-
15 hold, minus

16 (II) the obligations or debts of
17 any member of the household.

18 (2) INDIVIDUALS UNABLE TO COMPLETE THE
19 PROJECT.—The Secretary shall establish such regu-
20 lations as are necessary, including prohibiting eligi-
21 bility for further assistance under a demonstration
22 project conducted under this section, to ensure com-
23 pliance with this section if an individual participat-
24 ing in the demonstration project moves from the
25 community in which the project is conducted or is

1 otherwise unable to continue participating in the
2 project.

3 (f) SELECTION OF INDIVIDUALS TO RECEIVE AS-
4 SISTANCE.—From among the individuals eligible for as-
5 sistance under a demonstration project conducted under
6 this section, each qualified entity grantee shall select the
7 individuals—

8 (1) whom the qualified entity grantee deems to
9 be best suited to receive such assistance; and

10 (2) to whom the qualified entity grantee will
11 provide financial assistance in accordance with sub-
12 section (g).

13 (g) PROVISION OF FINANCIAL ASSISTANCE.—

14 (1) IN GENERAL.—Not less than once a month
15 during each project year, each qualified entity grant-
16 ee under this section shall deposit in the individual
17 development account of each individual participating
18 in the project an amount—

19 (A) from the grant made under subsection
20 (c)(2), equal to the amount of earned income
21 (as defined in section 911(d)(2) of the Internal
22 Revenue Code of 1986) deposited during the
23 month by the individual in the individual's de-
24 velopment account, and

1 (B) from the non-Federal funds described
2 in subsection (b)(2)(D), equal to the amount
3 described in subparagraph (A).

4 (2) LIMITATION ON FINANCIAL ASSISTANCE TO
5 INDIVIDUAL.—Not more than \$2,000 from a grant
6 made under subsection (c)(2) shall be provided to
7 any 1 individual.

8 (3) LIMITATION ON FINANCIAL ASSISTANCE TO
9 HOUSEHOLD.—Not more than \$4,000 from a grant
10 made under subsection (c)(2) shall be provided to
11 any 1 household.

12 (4) WITHDRAWAL OF FUNDS.—The Secretary
13 shall establish such regulations as may be necessary
14 to ensure that funds held in an individual develop-
15 ment account are not withdrawn except for 1 or
16 more of the qualified expenses specified in section
17 529(c)(1) of the Internal Revenue Code of 1986 (as
18 added by section 4 of this Act). Such regulations
19 shall include a requirement that a responsible official
20 of the qualified entity grantee conducting a project
21 approve such withdrawal in writing.

22 (h) LOCAL CONTROL OVER DEMONSTRATION
23 PROJECTS.—Each qualified entity grantee under this sec-
24 tion shall, subject to the provisions of subsection (j), have
25 sole authority over the administration of the project. The

1 Secretary may prescribe only such regulations with respect
2 to demonstration projects under this section as are nec-
3 essary to ensure compliance with the approved applica-
4 tions and this section.

5 (i) SEMIANNUAL PROGRESS REPORTS.—

6 (1) IN GENERAL.—Each qualified entity grant-
7 ee under this section shall prepare semiannual re-
8 ports on the progress of the project. Each report
9 shall specify for the semiannual period covered by
10 the report the following information:

11 (A) The number of individuals making a
12 deposit into an individual development account.

13 (B) Information on the amounts in the Re-
14 serve Fund established with respect to the
15 project.

16 (C) The amounts deposited in the individ-
17 ual development accounts.

18 (D) The amounts withdrawn from the indi-
19 vidual development accounts and the purposes
20 for which such amounts were withdrawn.

21 (E) The balances remaining in the individ-
22 ual development accounts.

23 (F) Such other information as the Sec-
24 retary may require to evaluate the project.

1 (2) SUBMISSION OF REPORTS.—The qualified
2 entity grantee shall submit each report required to
3 be prepared under paragraph (1) to—

4 (A) the Secretary; and

5 (B) the Treasurer (or equivalent official)
6 of the State in which the project is conducted,
7 if the State or local government committed
8 funds to the demonstration project.

9 (3) TIMING.—The first report required by para-
10 graph (1) shall be submitted at the end of the 7-
11 month period beginning on the date the Secretary
12 authorized the qualified entity grantee to conduct
13 the demonstration project, and subsequent reports
14 shall be submitted every 6 months thereafter, until
15 the conclusion of the project.

16 (j) SANCTIONS.—

17 (1) AUTHORITY TO TERMINATE DEMONSTRA-
18 TION PROJECT.—If the Secretary determines that a
19 qualified entity grantee under this section is not op-
20 erating the project in accordance with the grantee's
21 application or this section (and has not implemented
22 any corrective recommendations directed by the Sec-
23 retary), the Secretary shall terminate such grantee's
24 authority to conduct the project.

1 (2) ACTIONS REQUIRED UPON TERMINATION.—

2 If the Secretary terminates the authority to conduct
3 a demonstration project, the Secretary—

4 (A) shall suspend the project;

5 (B) shall take control of the Reserve Fund
6 established pursuant to subsection (d);

7 (C) shall make every effort to identify an-
8 other qualified entity willing and able to con-
9 duct the project in accordance with the ap-
10 proved application (or, as modified, if necessary
11 to incorporate the recommendations) and this
12 section;

13 (D) shall, if the Secretary identifies such
14 an entity—

15 (i) authorize the entity to conduct the
16 project in accordance with the approved
17 application (or, as modified, if necessary,
18 to incorporate the recommendations) and
19 this section;

20 (ii) transfer to the entity control over
21 the Reserve Fund established pursuant to
22 subsection (d); and

23 (iii) consider, for purposes of this sec-
24 tion—

1 (I) such other entity to be the
2 qualified entity originally authorized
3 to conduct the project; and

4 (II) the date of such authoriza-
5 tion to be the date of the original au-
6 thorization; and

7 (E) if, by the end of the 1-year period be-
8 ginning on the date of the termination, the Sec-
9 retary has not found such a qualified entity,
10 shall—

11 (i) terminate the project; and

12 (ii) from the amount remaining in the
13 Reserve Fund established as part of the
14 project, remit to each source that provided
15 funds under subsection (b)(2)(D) to the
16 entity originally authorized to conduct the
17 project, an amount that bears the same
18 ratio to the amount so remaining as the
19 amount provided by the source under sub-
20 section (b)(2)(D) bears to the amount pro-
21 vided by all such sources under subsection
22 (b)(2)(D).

23 (k) EVALUATIONS.—

24 (1) IN GENERAL.—Not later than 16 months
25 after the date of the enactment of this Act, the Sec-

1 retary shall enter into a contract with an independ-
2 ent research organization to evaluate, individually
3 and as a group, all qualified entities and sources
4 participating in the demonstration projects con-
5 ducted under this section.

6 (2) FACTORS TO EVALUATE.—In evaluating any
7 demonstration project conducted under this section,
8 the research organization shall address the following
9 factors:

10 (A) The savings account characteristics
11 (such as threshold amounts and match rates)
12 required to stimulate participation in the dem-
13 onstration project, and how such characteristics
14 vary among different populations or commu-
15 nities.

16 (B) What service configurations of the
17 qualified entity grantee (such as peer support,
18 structured planning exercises, mentoring, and
19 case management) increase the rate and con-
20 sistency of participation in the demonstration
21 project and how such configurations vary
22 among different populations or communities.

23 (C) The economic, civic, psychological, and
24 social effects of asset accumulation, and how

1 such effects vary among different populations
2 or communities.

3 (D) The effects of individual development
4 accounts on savings rates, homeownership, level
5 of education attained, and self-employment, and
6 how such effects vary among different popu-
7 lations or communities.

8 (E) The potential financial returns to the
9 Federal Government and to other public sector
10 and private sector investors in individual devel-
11 opment accounts over a 5-year and 10-year pe-
12 riod of time.

13 (F) The lessons to be learned from the
14 demonstration projects conducted under this
15 section and if a permanent program of individ-
16 ual development accounts should be established.

17 (G) Such other factors as may be pre-
18 scribed by the Secretary.

19 (3) METHODOLOGICAL REQUIREMENTS.—In
20 evaluating any demonstration project conducted
21 under this section, the research organization shall—

22 (A) to the extent possible, use control
23 groups to compare participants with
24 nonparticipants;

1 (B) before, during, and after the project,
2 obtain such quantitative data as are necessary
3 to evaluate the project thoroughly; and

4 (C) develop a qualitative assessment, de-
5 rived from sources such as in-depth interviews,
6 of how asset accumulation affects individuals
7 and families.

8 (4) REPORTS BY THE SECRETARY.—

9 (A) INTERIM REPORTS.—Not less than
10 once during the 12-month period beginning on
11 the date of the enactment of this Act, and dur-
12 ing each 12-month period thereafter until all
13 demonstration projects conducted under this
14 section are completed, the Secretary shall sub-
15 mit to the Congress an interim report setting
16 forth the results of the evaluations conducted
17 pursuant to this subsection.

18 (B) FINAL REPORTS.—Not later than 12
19 months after the conclusion of all demonstra-
20 tion projects conducted under this section, the
21 Secretary shall submit to the Congress a final
22 report setting forth the results and findings of
23 evaluations conducted pursuant to this sub-
24 section.

1 (5) EVALUATION EXPENSES.—The Secretary
2 shall expend such sums as may be necessary to carry
3 out the purposes of this subsection.

4 (l) DEFINITIONS.—As used in this section:

5 (1) APPLICABLE PERIOD.—The term “applica-
6 ble period” means, with respect to amounts to be
7 paid from a grant made for a project year, the cal-
8 endar year immediately preceding the calendar year
9 in which the grant is made.

10 (2) HOUSEHOLD.—The term “household”
11 means all individuals who share use of a dwelling
12 unit as primary quarters for living and eating sepa-
13 rate from other individuals.

14 (3) INDIVIDUAL DEVELOPMENT ACCOUNT.—
15 The term “individual development account” has the
16 same meaning given such term in section 529 of the
17 Internal Revenue Code of 1986, as added by section
18 4 of this Act.

19 (4) PENALTY AMOUNT.—The term “penalty
20 amount” means any of the following:

21 (A) FINANCIAL ASSISTANCE FORFEITED.—
22 Any amount paid into the general fund of the
23 Treasury of the United States under section
24 529(e) of the Internal Revenue Code of 1986
25 (as so added).

1 (B) 10 PERCENT ADDITION TO TAX.—Any
2 additional tax imposed by section 529(f) of the
3 Internal Revenue Code of 1986 (as so added).

4 (C) OTHER EXCISE OR PENALTY TAXES.—
5 Any tax imposed with respect to an individual
6 development account by section 4973, 4975, or
7 6693 of the Internal Revenue Code of 1986.

8 (5) PROJECT YEAR.—The term “project year”
9 means, with respect to a demonstration project, any
10 of the 4 consecutive 12-month periods beginning on
11 the date the project is originally authorized to be
12 conducted.

13 (6) QUALIFIED SAVINGS OF THE INDIVIDUAL
14 FOR THE PERIOD.—The term “qualified savings of
15 the individual for the period” means the aggregate
16 of the amounts contributed by the individual to the
17 individual development account of the individual
18 during the period.

19 (7) SECRETARY.—The term “Secretary” means
20 the Secretary of Health and Human Services.

21 (m) AUTHORIZATION OF APPROPRIATIONS.—To
22 carry out this section, the following amounts are author-
23 ized to be appropriated:

24 (1) \$20,000,000 for fiscal year 1996.

25 (2) \$30,000,000 for fiscal year 1997.

1 (3) \$30,000,000 for fiscal year 1998.

2 (4) \$20,000,000 for fiscal year 1999.

3 **SEC. 4. INDIVIDUAL DEVELOPMENT 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:

8 **“PART VIII—INDIVIDUAL DEVELOPMENT**
9 **ACCOUNTS**

“Sec. 529. Individual development accounts.

10 **“SEC. 529. INDIVIDUAL DEVELOPMENT ACCOUNTS.**

11 “(a) ESTABLISHMENT OF ACCOUNTS.—

12 “(1) IN GENERAL.—An individual development
13 account may be established by or on behalf of an eli-
14 gible individual for the purpose of accumulating
15 funds to pay the qualified expenses of such individ-
16 ual.

17 “(2) ELIGIBLE INDIVIDUAL.—

18 “(A) IN GENERAL.—The term ‘eligible in-
19 dividual’ means an individual for whom assist-
20 ance is (or at any prior time was) provided by
21 a qualified entity grantee under section 3(g) of
22 the Assets for Independence Act.

1 “(B) QUALIFIED ENTITY.—The term
2 ‘qualified entity’ has the meaning given such
3 term by section 3(b)(1)(B) of such Act.

4 “(b) LIMITATIONS.—

5 “(1) ACCOUNT TO BENEFIT 1 INDIVIDUAL.—An
6 individual development account may not be estab-
7 lished for the benefit of more than 1 individual.

8 “(2) MULTIPLE ACCOUNTS.—If, at any time
9 during a calendar year, 2 or more individual devel-
10 opment accounts are maintained for the benefit of
11 an eligible individual, such individual shall be treat-
12 ed as an eligible individual for the calendar year only
13 with respect to the 1st of such accounts.

14 “(3) ANNUAL LIMIT.—Contributions to an indi-
15 vidual development account for any taxable year
16 shall not exceed \$2,000. No contribution to the ac-
17 count under section 3(g) of the Assets for Independ-
18 ence Act shall be taken into account for purposes of
19 this paragraph.

20 “(4) CONTRIBUTIONS TO BE FROM EARNED IN-
21 COME.—An eligible individual may only contribute to
22 an account such amounts as are derived from earned
23 income, as defined in section 911(d)(2).

24 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
25 poses of this section—

1 “(1) QUALIFIED EXPENSES.—The term ‘quali-
 2 fied expenses’ means 1 or more of the following, as
 3 provided by the qualified entity providing assistance
 4 to the individual under section 3(g) of the Assets for
 5 Independence Act:

6 “(A) POSTSECONDARY EDUCATIONAL EX-
 7 PENSES.—Postsecondary educational expenses
 8 paid from an individual development account di-
 9 rectly to an eligible educational institution. For
 10 purposes of this subparagraph—

11 “(i) IN GENERAL.—The term ‘post-
 12 secondary educational expenses’ means—

13 “(I) tuition and fees required for
 14 the enrollment or attendance of a stu-
 15 dent at an eligible educational institu-
 16 tion, and

17 “(II) fees, books, supplies, and
 18 equipment required for courses of in-
 19 struction at an eligible educational in-
 20 stitution.

21 “(ii) ELIGIBLE EDUCATIONAL INSTI-
 22 TUTION.—The term ‘eligible educational
 23 institution’ means the following:

24 “(I) INSTITUTION OF HIGHER
 25 EDUCATION.—An institution described

1 in section 481(a)(1) or 1201(a) of the
2 Higher Education Act of 1965 (20
3 U.S.C. 1088(a)(1) or 1141(a)), as
4 such sections are in effect on the date
5 of the enactment of this section.

6 “(II) POSTSECONDARY VOCA-
7 TIONAL EDUCATION SCHOOL.—An
8 area vocational education school (as
9 defined in subparagraph (C) or (D) of
10 section 521(4) of the Carl D. Perkins
11 Vocational and Applied Technology
12 Education Act (20 U.S.C. 2471(4)))
13 which is in any State (as defined in
14 section 521(33) of such Act), as such
15 sections are in effect on the date of
16 the enactment of this section.

17 “(B) FIRST-HOME PURCHASE.—Qualified
18 acquisition costs with respect to a qualified
19 principal residence for a qualified first-time
20 homebuyer, if paid from an individual develop-
21 ment account directly to the persons to whom
22 the amounts are due. For purposes of this sub-
23 paragraph—

24 “(i) QUALIFIED ACQUISITION
25 COSTS.—The term ‘qualified acquisition

1 costs' means the costs of acquiring, con-
2 structing, or reconstructing a residence.
3 The term includes any usual or reasonable
4 settlement, financing, or other closing
5 costs.

6 “(ii) QUALIFIED PRINCIPAL RESI-
7 DENCE.—The term ‘qualified principal res-
8 idence’ means a principal residence (within
9 the meaning of section 1034), the qualified
10 acquisition costs of which do not exceed
11 100 percent of the average area purchase
12 price applicable to such residence (deter-
13 mined in accordance with paragraphs (2)
14 and (3) of section 143(e)).

15 “(iii) QUALIFIED FIRST-TIME HOME-
16 BUYER.—

17 “(I) IN GENERAL.—The term
18 ‘qualified first-time homebuyer’ means
19 a taxpayer (and, if married, the tax-
20 payer’s spouse) who has no present
21 ownership interest in a principal resi-
22 dence during the 3-year period ending
23 on the date of acquisition of the prin-
24 cipal residence to which this subpara-
25 graph applies.

1 “(II) DATE OF ACQUISITION.—

2 The term ‘date of acquisition’ means
3 the date on which a binding contract
4 to acquire, construct, or reconstruct
5 the principal residence to which this
6 subparagraph applies is entered into.

7 “(C) BUSINESS CAPITALIZATION.—

8 Amounts paid from an individual development
9 account directly to a business capitalization ac-
10 count which is established in a federally insured
11 financial institution and is restricted to use
12 solely for qualified business capitalization ex-
13 penses. For purposes of this subparagraph—

14 “(i) QUALIFIED BUSINESS CAPITAL-
15 IZATION EXPENSES.—The term ‘qualified
16 business capitalization expenses’ means
17 qualified expenditures for the capitalization
18 of a qualified business pursuant to a quali-
19 fied plan.

20 “(ii) QUALIFIED EXPENDITURES.—

21 The term ‘qualified expenditures’ means
22 expenditures included in a qualified plan,
23 including capital, plant, equipment, work-
24 ing capital, and inventory expenses.

1 “(iii) QUALIFIED BUSINESS.—The
2 term ‘qualified business’ means any busi-
3 ness that does not contravene any law or
4 public policy (as determined by the Sec-
5 retary).

6 “(iv) QUALIFIED PLAN.—The term
7 ‘qualified plan’ means a business plan
8 which—

9 “(I) is approved by a financial in-
10 stitution, or by a nonprofit loan fund
11 having demonstrated fiduciary integ-
12 rity,

13 “(II) includes a description of
14 services or goods to be sold, a market-
15 ing plan, and projected financial
16 statements, and

17 “(III) may require the eligible in-
18 dividual to obtain the assistance of an
19 experienced entrepreneurial advisor.

20 “(D) TRANSFERS TO IDAS OF FAMILY
21 MEMBERS.—Amounts paid from an individual
22 development account directly into another such
23 account established for the benefit of an eligible
24 individual who is—

25 “(i) the taxpayer’s spouse, or

1 “(ii) any dependent of the taxpayer
2 with respect to whom the taxpayer is al-
3 lowed a deduction under section 151.

4 “(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—
5 The term ‘individual development account’ means a
6 trust created or organized in the United States ex-
7 clusively for the purpose of paying the qualified ex-
8 penses of an eligible individual, but only if the writ-
9 ten governing instrument creating the trust meets
10 the following requirements:

11 “(A) No contribution will be accepted un-
12 less it is in cash or by check.

13 “(B) The trustee is a federally insured fi-
14 nancial institution.

15 “(C) The assets of the account will be in-
16 vested in accordance with the direction of the
17 eligible individual after consultation with the
18 qualified entity providing assistance to the indi-
19 vidual under section 3(g) of the Assets for Inde-
20 pendence Act.

21 “(D) The assets of the trust will not be
22 commingled with other property except in a
23 common trust fund or common investment
24 fund.

1 “(E) Except as provided in subparagraph
2 (F), any amount in the account which is attrib-
3 utable to assistance provided under section 3(g)
4 of the Assets for Independence Act may be paid
5 or distributed out of the account only for the
6 purpose of paying the qualified expenses of the
7 eligible individual.

8 “(F) Any balance in the account on the
9 day after the date on which the individual for
10 whose benefit the trust is established dies shall
11 be distributed within 30 days of such date as
12 directed by such individual to another individual
13 development account established for the benefit
14 of an eligible individual.

15 “(3) TIME WHEN CONTRIBUTIONS DEEMED
16 MADE.—A taxpayer shall be deemed to have made a
17 contribution on the last day of the preceding taxable
18 year if the contribution is made on account of such
19 taxable year and is made not later than the time
20 prescribed by law for filing the return for such tax-
21 able year (including extensions thereof).

22 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

23 “(1) IN GENERAL.—Except as otherwise pro-
24 vided in this subsection, any amount paid or distrib-
25 uted out of an individual development account at-

1 tributable to assistance provided under section 3(g)
2 of the Assets for Independence Act (including earn-
3 ings attributable to such assistance) shall be in-
4 cluded in gross income of the payee or distributee
5 for the taxable year in the manner provided in sec-
6 tion 72.

7 “(2) DISTRIBUTION USED TO PAY QUALIFIED
8 EXPENSES.—A payment or distribution out of an in-
9 dividual development account attributable to assist-
10 ance provided under section 3(g) of the Assets for
11 Independence Act shall not be included in gross in-
12 come to the extent such payment or distribution is
13 used exclusively to pay the qualified expenses in-
14 curred by the eligible individual for whose benefit
15 the account is established.

16 “(3) ORDERING RULES.—Any distribution from
17 an individual development account shall not be treat-
18 ed as made from the accumulated contributions
19 made to the account by the eligible individual (in-
20 cluding earnings attributable to such contributions)
21 until all other amounts to the credit of the eligible
22 individual have been distributed.

23 “(e) TAX TREATMENT OF ACCOUNTS.—

24 “(1) EXEMPTION FROM TAX.—

1 “(A) IN GENERAL.—Except as provided in
2 subparagraph (B), an individual development
3 account is exempt from taxation under this title
4 unless such account has ceased to be an individ-
5 ual development account by reason of para-
6 graph (2). Notwithstanding the preceding sen-
7 tence, any such account is subject to the taxes
8 imposed by section 511 (relating to imposition
9 of tax on unrelated business income of chari-
10 table, etc. organizations).

11 “(B) CERTAIN EARNINGS TAXED AS
12 GRANTOR TRUST.—An eligible individual shall
13 be treated for purposes of this title as the
14 owner of the individual development account es-
15 tablished by or on behalf of such individual and
16 shall be subject to tax thereon with respect to
17 the earnings attributable to contributions made
18 to the account by the eligible individual in ac-
19 cordance with subpart E of part I of subchapter
20 J of this chapter (relating to grantors and oth-
21 ers treated as substantial owners).

22 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
23 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
24 ACTION.—

1 “(A) IN GENERAL.—If an eligible individ-
2 ual or qualified entity engages in any trans-
3 action prohibited by section 4975 with respect
4 to such individual’s account, the account shall
5 cease to be an individual development account
6 as of the 1st day of the taxable year of such in-
7 dividual during which such transaction occurs.

8 “(B) ACCOUNT TREATED AS DISTRIBUTING
9 ALL ITS ASSETS.—In any case in which any ac-
10 count ceases to be an individual development
11 account by reason of subparagraph (A) as of
12 the 1st day of any taxable year—

13 “(i) all assets in the account on such
14 1st day which are attributable to assist-
15 ance provided under section 3(g) of the As-
16 sets for Independence Act shall be paid
17 into the general fund of the Treasury of
18 the United States, and

19 “(ii) the remaining assets shall be
20 treated as distributed on such 1st day.

21 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-
22 ITY.—If, during any taxable year, an eligible indi-
23 vidual or qualified entity uses such individual’s ac-
24 count or any portion thereof as security for a loan—

1 “(A) an amount equal to the part of the
2 portion so used which is attributable to assist-
3 ance provided under section 3(g) of the Assets
4 for Independence Act shall be paid into the gen-
5 eral fund of the Treasury of the United States,
6 and

7 “(B) the remaining part of the portion so
8 used shall be treated as distributed to the eligi-
9 ble individual.

10 “(4) EFFECT OF LIEN OR OTHER SEIZURE OF
11 ACCOUNT.—If, during any taxable year, a lien is
12 placed on an individual development account, or the
13 account is otherwise seized pursuant to legal or ad-
14 ministrative process—

15 “(A) an amount equal to the part of the
16 portion so seized which is attributable to assist-
17 ance provided under section 3(g) of the Assets
18 for Independence Act shall be paid into the gen-
19 eral fund of the Treasury of the United States,
20 and

21 “(B) the remaining part of the portion so
22 seized shall be treated as distributed to the eli-
23 gible individual.

24 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
25 CLUDED IN GROSS INCOME.—

1 “(1) DISTRIBUTION NOT USED FOR QUALIFIED
2 EXPENSES.—In the case of any payment or distribu-
3 tion not used exclusively to pay qualified expenses
4 incurred by the eligible individual for whose benefit
5 the individual development account is established,
6 the tax liability of each payee or distributee under
7 this chapter for the taxable year in which the pay-
8 ment or distribution is received shall be increased by
9 an amount equal to 10 percent of the amount of the
10 payment or distribution.

11 “(2) DISABILITY OR DEATH CASES.—Paragraph
12 (1) shall not apply if the payment or distribution is
13 made after the individual for whose benefit the indi-
14 vidual development account becomes disabled within
15 the meaning of section 72(m)(7) or dies.

16 “(g) COMMUNITY PROPERTY LAWS.—This section
17 shall be applied without regard to any community property
18 laws.

19 “(h) CUSTODIAL ACCOUNTS.—For purposes of this
20 section, a custodial account shall be treated as a trust if
21 the assets of such account are held by a bank (as defined
22 in section 408(n)) or another person who demonstrates,
23 to the satisfaction of the Secretary, that the manner in
24 which such person will administer the account will be con-
25 sistent with the requirements of this section, and if the

1 custodial account would, except for the fact that it is not
2 a trust, constitute an individual development account de-
3 scribed in subsection (c)(2). For purposes of this title, in
4 the case of a custodial account treated as a trust by reason
5 of the preceding sentence, the custodian of such account
6 shall be treated as the trustee thereof.

7 “(i) REPORTS.—The trustee of an individual develop-
8 ment account shall—

9 “(1) prepare reports regarding the account with
10 respect to contributions, distributions, and any other
11 matter required by the Secretary under regulations,
12 and

13 “(2) submit such reports, at the time and in
14 the manner prescribed by the Secretary in regula-
15 tions, to—

16 “(A) the eligible individual for whose bene-
17 fit the account is maintained,

18 “(B) the qualified entity providing assist-
19 ance to the individual under section 3(g) of the
20 Assets for Independence Act, and

21 “(C) the Secretary.”

22 (b) DEDUCTION ALLOWED AGAINST GROSS IN-
23 COME.—Subsection (a) of section 62 (defining adjusted
24 gross income) is amended by inserting after paragraph
25 (15) the following new paragraph:

1 “(16) INDIVIDUAL DEVELOPMENT ACCOUNTS.—
2 Except as provided in section 529, contributions to
3 an individual development account established to
4 provide assistance to the taxpayer under section 3(g)
5 of the Assets for Independence Act.”

6 (c) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—
7 Section 2503 of such Code (relating to taxable gifts) is
8 amended by adding at the end the following new sub-
9 section:

10 “(h) INDIVIDUAL DEVELOPMENT ACCOUNTS.—Any
11 contribution made by an individual or qualified entity to
12 an individual development account described in section
13 529(c)(2) shall not be treated as a transfer of property
14 by gift for purposes of this chapter.”

15 (d) TAX ON PROHIBITED TRANSACTIONS.—Section
16 4975 of such Code (relating to prohibited transactions)
17 is amended—

18 (1) by adding at the end of subsection (c) the
19 following new paragraph:

20 “(4) SPECIAL RULE FOR INDIVIDUAL DEVELOP-
21 MENT ACCOUNTS.—An eligible individual for whose
22 benefit an individual development account is estab-
23 lished and any contributor to such account shall be
24 exempt from the tax imposed by this section with re-
25 spect to any transaction concerning such account

1 (which would otherwise be taxable under this sec-
2 tion) if, with respect to such transaction, the ac-
3 count ceases to be an individual development ac-
4 count by reason of the application of section
5 529(e)(2)(A) to such account.”, and

6 (2) by inserting “, an individual development
7 account described in section 529(c)(2),” in sub-
8 section (e)(1) after “described in section 408(a)”.

9 (e) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL
10 DEVELOPMENT ACCOUNTS.—Section 6693 of such Code
11 (relating to failure to provide reports on individual retire-
12 ment accounts or annuities) is amended—

13 (1) by inserting “**OR ON INDIVIDUAL DEVEL-**
14 **OPMENT ACCOUNTS**” after “**ANNUITIES**” in the
15 heading of such section, and

16 (2) by adding at the end of subsection (a) the
17 following new sentence: “The person required by sec-
18 tion 529(i) to file a report regarding an individual
19 development account at the time and in the manner
20 required by such section shall pay a penalty of \$50
21 for each failure, unless it is shown that such failure
22 is due to reasonable cause.”

23 (f) SPECIAL RULE FOR DETERMINING AMOUNTS OF
24 SUPPORT FOR DEPENDENT.—Subsection (b) of section
25 152 of such Code (relating to definition of dependent) is

1 amended by adding at the end the following new para-
2 graph:

3 “(6) A distribution from an individual develop-
4 ment account described in section 529(c)(2) to the
5 eligible individual for whose benefit such account has
6 been established shall not be taken into account in
7 determining support for purposes of this section to
8 the extent such distribution is excluded from gross
9 income of such individual under section 529(d)(2).”

10 (g) CLERICAL AMENDMENTS.—

11 (1) The table of parts for subchapter F of
12 chapter 1 of such Code is amended by inserting at
13 the end the following new item:

 “Part VIII. Individual development accounts.”

14 (2) The table of sections for subchapter B of
15 chapter 68 of such Code is amended by striking the
16 item relating to section 6693 and inserting the fol-
17 lowing new item:

 “Sec. 6693. Failure to provide reports on individual retirement
 accounts or annuities or on individual development
 accounts.”

18 (h) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to contributions made after the
20 date of the enactment of this Act.

1 **SEC. 5. FUNDS IN INDIVIDUAL DEVELOPMENT ACCOUNTS**
 2 **OF DEMONSTRATION PROJECT PARTICI-**
 3 **PANTS DISREGARDED FOR PURPOSES OF ALL**
 4 **MEANS-TESTED FEDERAL PROGRAMS.**

5 Notwithstanding any Federal law (other than the In-
 6 ternal Revenue Code of 1986) that requires consideration
 7 of 1 or more financial circumstances of an individual, for
 8 the purpose of determining eligibility to receive, or the
 9 amount of, any assistance or benefit authorized by such
 10 law to be provided to or for the benefit of such individual,
 11 funds (including interest accruing) in an individual devel-
 12 opment account (as defined in section 529 of the Internal
 13 Revenue Code of 1986, as added by section 4 of this Act)
 14 shall be disregarded for such purpose with respect to any
 15 period during which such individual participates in a dem-
 16 onstration project conducted under section 3 of this Act
 17 (or would be participating in such a project but for the
 18 suspension of the project).

○

S 1212 IS—2

S 1212 IS—3

S 1212 IS—4