

103^D CONGRESS
1ST SESSION

H. R. 822

To amend the Internal Revenue Code of 1986 to increase the availability of individual retirement accounts, to increase amount deductible for contributions to such accounts, and to permit penalty-free withdrawals from such accounts to pay educational, medical, and business start-up expenses.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1993

Mr. BROWN of California 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 increase the availability of individual retirement accounts, to increase amount deductible for contributions to such accounts, and to permit penalty-free withdrawals from such accounts to pay educational, medical, and business start-up expenses.

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 “Middle Class Flexible
5 Savings Act of 1993”.

1 **SEC. 2. HIGHER MAXIMUM IRA DEDUCTION AND INCOME**
2 **PHASEOUT LIMITS; INFLATION ADJUSTMENT**
3 **OF MAXIMUM IRA DEDUCTION AND PHASE-**
4 **OUT LIMITS.**

5 (a) HIGHER MAXIMUM IRA DEDUCTION.—

6 (1) IN GENERAL.—The following provisions of
7 the Internal Revenue Code of 1986 are each amend-
8 ed by striking “\$2,000” and inserting “\$3,000”:

9 (A) Subsections (b)(1)(A) and (c)(2) of
10 section 219.

11 (B) Subsections (a)(1), (b), and (j) of sec-
12 tion 408.

13 (2) CONFORMING AMENDMENT.—Sections
14 219(c)(2) and 408(d)(5) are each amended by strik-
15 ing “\$2,250” and inserting “\$3,500”.

16 (b) HIGHER INCOME PHASEOUT LIMITS.—

17 (1) Subparagraph (B) of section 219(g)(3) of
18 such Code is amended—

19 (A) by striking “\$40,000” and inserting
20 “\$50,000”, and

21 (B) by striking “\$25,000” and inserting
22 “\$30,000”.

23 (2) Clause (ii) of section 219(g)(2)(A) of such
24 Code is amended to read as follows:

25 “(ii) \$12,000.”

1 (c) INFLATION ADJUSTMENT OF MAXIMUM IRA DE-
2 DUCTION AND INCOME PHASEOUT LIMITS.—Section 219
3 of such Code is amended by inserting after subsection (f)
4 the following new subsection:

5 “(g) INFLATION ADJUSTMENT OF MAXIMUM DEDUC-
6 TION AND INCOME PHASEOUT LIMITS.—

7 “(1) IN GENERAL.—In the case of any taxable
8 year beginning in a calendar year after 1993, each
9 applicable dollar amount shall be increased by an
10 amount equal to—

11 “(A) such dollar amount, multiplied by

12 “(B) the cost-of-living adjustment under
13 section 1(f)(3) for the calendar year in which
14 the taxable year begins, determined by sub-
15 stituting ‘calendar year 1992’ for ‘calendar year
16 1989’ in subparagraph (B) thereof.

17 “(2) APPLICABLE DOLLAR AMOUNT.—For pur-
18 poses of paragraph (1), the term ‘applicable dollar
19 amount’ means—

20 “(A) the \$3,000 amount in subsections
21 (b)(1)(A), (c)(2), and (c)(3) of this section and
22 in subsections (a)(1), (b), and (j) of section
23 408,

24 “(B) the \$3,500 amount in subsection
25 (c)(2) of this section and in section 408(d)(5),

1 “(C) the \$50,000 and \$30,000 amounts in
2 subsection (g)(3)(B), and

3 “(D) the \$12,000 amount in subsection
4 (g)(2)(A)(ii).

5 “(3) ROUNDING.—If any amount as adjusted
6 under paragraph (1) is not a multiple of \$50, such
7 amount shall be rounded to the nearest multiple of
8 \$50 (or, if such amount is a multiple of \$25 and not
9 of \$50, such amount shall be rounded to the next
10 highest multiple of \$50).”

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 1992.

14 **SEC. 3. IRA FOR NONWORKING SPOUSE WITH YOUNG CHIL-**
15 **DREN COMPUTED ON BASIS OF COMPENSA-**
16 **TION OF BOTH SPOUSES.**

17 (a) IN GENERAL.—Subsection (c) of section 219 of
18 the Internal Revenue Code of 1986 (relating to special
19 rules for certain married individuals) is amended by add-
20 ing at the end thereof the following new paragraph:

21 “(3) HIGHER LIMIT FOR SPOUSE WITH YOUNG
22 CHILDREN.—

23 “(A) IN GENERAL.—In the case of a quali-
24 fying spouse, the amount allowable as a deduc-

1 tion under paragraph (1) shall not exceed the
2 lesser of—

3 “(i) \$3,000, or

4 “(ii) the sum of—

5 “(I) the compensation includible
6 in such individual’s gross income for
7 the taxable year, plus

8 “(II) the compensation includible
9 in the gross income of such individ-
10 ual’s spouse for the taxable year re-
11 duced by the amount allowable as a
12 deduction under subsection (a) to
13 such spouse for such taxable year.

14 “(B) QUALIFYING SPOUSE.—For purposes
15 of subparagraph (A), the term ‘qualifying
16 spouse’ means any spouse of an individual if—

17 “(i) such individual and spouse file a
18 joint return for the taxable year,

19 “(ii) such spouse has less than \$1,000
20 of compensation (determined without re-
21 gard to section 911) for the taxable year,
22 and

23 “(iii) such spouse has a child (as de-
24 fined in section 151(c)(3)) who has not at-
25 tained age 6 as of the close of such taxable

1 year and who is a dependent (as defined in
2 section 152) of the taxpayer for such
3 year.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 1992.

7 **SEC. 4. PENALTY-FREE WITHDRAWALS FROM CERTAIN**
8 **PLANS TO PAY EDUCATIONAL EXPENSES,**
9 **MEDICAL EXPENSES, AND BUSINESS START-**
10 **UP EXPENSES.**

11 (a) EDUCATIONAL EXPENSES AND BUSINESS START-
12 UP EXPENSES.—

13 (1) IN GENERAL.—Paragraph (2) of section
14 72(t) of the Internal Revenue Code of 1986 (relating
15 to exceptions to 10-percent additional tax on early
16 distributions from qualified retirement plans) is
17 amended by adding at the end thereof the following
18 new subparagraph:

19 “(D) DISTRIBUTIONS FROM CERTAIN
20 PLANS FOR EDUCATIONAL EXPENSES AND BUSI-
21 NESS START-UP EXPENSES.—

22 “(i) IN GENERAL.—Distributions to
23 an individual from an individual retirement
24 plan, or from amounts attributable to em-
25 ployer contributions made pursuant to

1 elective deferrals described in subpara-
2 graph (A) or (C) of section 402(g)(3) or
3 section 501(c)(18)(D)(iii) to the extent
4 such distributions do not exceed the sum
5 of—

6 “(I) the qualified higher edu-
7 cation expenses (as defined in para-
8 graph (6)) of the taxpayer for the tax-
9 able year, and

10 “(II) the start-up expenditures
11 (as defined in section 195(c)) of the
12 taxpayer for the taxable year.

13 “(ii) ADJUSTED GROSS INCOME
14 LIMIT.—Clause (i) shall apply to distribu-
15 tions from an individual retirement plan
16 only if the adjusted gross income of the
17 distributee for the taxable year in which
18 the distribution occurs does not exceed—

19 “(I) \$60,000 in the case of an
20 unmarried individual,

21 “(II) \$70,000 in the case of a
22 joint return, and

23 “(III) \$35,000 in the case of a
24 married individual filing a separate
25 return.”

1 (2) QUALIFIED HIGHER EDUCATION EXPENSES
2 DEFINED.—Section 72(t) of such Code is amended
3 by adding at the end thereof the following new para-
4 graph:

5 “(6) QUALIFIED HIGHER EDUCATION EX-
6 PENSES.—For purposes of paragraph (2)(D)—

7 “(A) IN GENERAL.—The term ‘qualified
8 higher education expenses’ means tuition, fees,
9 books, supplies, and equipment required for the
10 enrollment or attendance of—

11 “(i) the taxpayer,

12 “(ii) the taxpayer’s spouse, or

13 “(iii) a child (as defined in section
14 151(c)(3)) of the taxpayer,

15 at an eligible educational institution (as defined
16 in section 135(c)(3)).

17 “(B) COORDINATION WITH SAVINGS BOND
18 PROVISIONS.—The amount of qualified higher
19 education expenses for any taxable year shall be
20 reduced by any amount excludable from gross
21 income under section 135.”

22 (b) CATASTROPHIC ILLNESS EXPENSES.—Subpara-
23 graph (A) of section 72(t)(3) of such Code is amended
24 to read as follows:

1 “(A) CERTAIN EXCEPTIONS NOT TO APPLY
2 TO INDIVIDUAL RETIREMENT PLANS.—

3 “(i) IN GENERAL.—Except as pro-
4 vided in clause (ii), subparagraphs (A)(v),
5 (B), and (C) of paragraph (2) shall not
6 apply to distributions from an individual
7 retirement plan.

8 “(ii) DISTRIBUTIONS FOR MEDICAL
9 EXPENSES FROM CERTAIN INDIVIDUAL RE-
10 TIREMENT PLANS.—Subparagraph (B) of
11 paragraph (2) shall apply to distributions
12 from an individual retirement plan if the
13 adjusted gross income of the distributee
14 for the taxable year in which the distribu-
15 tion occurs does not exceed the applicable
16 limitation under paragraph (2)(D).”

17 (c) CONFORMING AMENDMENTS.—

18 (1) Section 401(k)(2)(B)(i) of such Code is
19 amended by striking “or” at the end of subclause
20 (III), by striking “and” at the end of subclause (IV)
21 and inserting “or”, and by inserting after subclause
22 (IV) the following new subclause:

23 “(V) the date on which distribu-
24 tions for qualified higher education
25 expenses (as defined in section

1 72(t)(6)) or start-up expenses (as de-
2 fined in section 195(c)) are made,
3 and”.

4 (2) Section 403(b)(11) of such Code is amend-
5 ed by striking “or” at the end of subparagraph (A),
6 by striking the period at the end of subparagraph
7 (B) and inserting “, or”, and by inserting after sub-
8 paragraph (B) the following new subparagraph:

9 “(C) for the payment of qualified higher
10 education expenses (as defined in section
11 72(t)(6)) or start-up expenses (as defined in
12 section 195(c)).”

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to payments and distributions after
15 the date of the enactment of this Act.

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