

104TH CONGRESS
2D SESSION

H. R. 3157

To amend the Internal Revenue Code of 1986 to allow the establishment of individual training accounts.

IN THE HOUSE OF REPRESENTATIVES

MARCH 22, 1996

Mr. TORRICELLI 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 the establishment of individual training 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. TAX TREATMENT OF INDIVIDUAL TRAINING AC-**
4 **COUNTS.**

5 (a) IN GENERAL.—Part VII of subchapter B of chap-
6 ter 1 of the Internal Revenue Code of 1986 (relating to
7 additional itemized deductions for individuals) is amended
8 by redesignating section 220 as section 221 and by insert-
9 ing after section 219 the following new section:

1 **“SEC. 220. INDIVIDUAL TRAINING ACCOUNTS.**

2 “(a) ALLOWANCE OF DEDUCTION.—

3 “(1) IN GENERAL.—In the case of an individual
4 who is a qualified account holder, there shall be al-
5 lowed as a deduction an amount equal to the
6 amounts paid in cash for the taxable year by or on
7 behalf of such individual to any individual training
8 account for such individual’s benefit.

9 “(2) LIMITATION.—

10 “(A) ANNUAL CONTRIBUTIONS.—The
11 amount allowable as a deduction to any individ-
12 ual for any taxable year by reason of paragraph
13 (1) shall not exceed the lesser of—

14 “(i) \$2,000, or

15 “(ii) an amount equal to the com-
16 pensation includible in the individual’s
17 gross income for such taxable year.

18 “(B) ACCOUNT CEILING.—No amount
19 shall be allowable as a deduction to any individ-
20 ual by reason of paragraph (1) with respect to
21 any amount paid to any individual training ac-
22 count for such individual’s benefit if, at the
23 time of such payment, the sum of the amounts
24 in all individual training accounts of such indi-
25 vidual (including the amount of such payment)
26 exceeds \$12,000.

1 “(3) ROLLOVERS.—No deduction shall be al-
2 lowed under this section with respect to any rollover
3 contribution.

4 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

5 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
6 COME.—Except as otherwise provided in this sub-
7 section, any amount paid or distributed out of an in-
8 dividual training account shall be included in gross
9 income by the payee or distributee, as the case may
10 be, under rules similar to the rules of section 72 and
11 408(d)(2).

12 “(2) EXCLUSION OF QUALIFIED TRAINING DIS-
13 TRIBUTIONS.—Paragraph (1) does not apply to any
14 qualified training distribution.

15 “(3) ROLLOVERS.—Rules similar to the rules of
16 section 408(d)(3) shall apply for purposes of this
17 section.

18 “(4) SPECIAL RULES.—Rules similar to the
19 rules of paragraphs (4) and (5) of section 408(d)
20 shall apply for purposes of this section.

21 “(c) QUALIFIED TRAINING DISTRIBUTION.—For
22 purposes of this section—

23 “(1) IN GENERAL.—The term ‘qualified train-
24 ing distribution’ means any amount paid or distrib-
25 uted out of an individual training account which

1 would otherwise be includible in gross income, to the
2 extent that such payment or distribution is used ex-
3 clusively to pay qualified training expenses for a
4 qualified account holder.

5 “(2) QUALIFIED TRAINING EXPENSES.—For
6 purposes of this subsection—

7 “(A) IN GENERAL.—The term ‘qualified
8 training expenses’ means tuition, fees, books,
9 supplies, and equipment required for the enroll-
10 ment or attendance of a qualified account hold-
11 er at an eligible educational institution (as de-
12 fined in section 135(c)(3)).

13 “(B) COORDINATION WITH SAVINGS BOND
14 PROVISIONS.—The amount of qualified training
15 expenses for any qualified account holder for
16 any taxable year shall be reduced by the excess
17 (if any) of—

18 “(i) any amount excludable from gross
19 income under section 135 for such taxable
20 year, over

21 “(ii) the amount of qualified higher
22 education expenses (within the meaning of
23 section 135) paid by such account holder
24 during such taxable year for any other in-
25 dividual.

1 “(d) QUALIFIED ACCOUNT HOLDER.—For purposes
2 of this section—

3 “(1) IN GENERAL.—The term ‘qualified account
4 holder’ means, with respect to any individual train-
5 ing account, the account holder if such account hold-
6 er worked at least half-time for at least 6 months
7 during the applicable period.

8 “(2) APPLICABLE PERIOD.—The term ‘applica-
9 ble period’ means—

10 “(A) with respect to any amount paid to
11 any individual training account, the 1-year pe-
12 riod ending on the date of such payment, and

13 “(B) with respect to any distribution from
14 an individual training account and any qualified
15 training expenses (determined without regard to
16 this paragraph), the 1-year period ending on
17 the earlier of—

18 “(i) the date of such distribution, or

19 “(ii) the date on which the qualified
20 account holder began the course of study
21 to which such expenses relate.

22 “(3) SELF-EMPLOYED.—Any self-employed in-
23 dividual shall be treated as working at least half-
24 time to the extent provided by regulations.

25 “(e) TAX TREATMENT OF ACCOUNTS.—

1 “(1) IN GENERAL.—Any individual training ac-
2 count is exempt from taxation under this subtitle
3 unless such account has ceased to be an individual
4 training account by reason of paragraph (2) and ex-
5 cept for periods to which paragraph (3) applies. Not-
6 withstanding the preceding sentence, any such ac-
7 count is subject to the taxes imposed by section 511
8 (relating to imposition of tax on unrelated business
9 income of charitable, etc., organizations).

10 “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
11 ITED TRANSACTIONS.—For purposes of this section,
12 rules similar to the rules of section 408(e) shall
13 apply.

14 “(3) LOSS OF EXEMPTION DURING PERIODS
15 WHEN ACCOUNT CEILING EXCEEDED.—An individual
16 training account of an individual shall not be exempt
17 from taxation under this subtitle by reason of para-
18 graph (1) for any period during which the sum of
19 the amounts in all individual training accounts of
20 such individual exceeds \$12,000.

21 “(f) INDIVIDUAL TRAINING ACCOUNT.—For pur-
22 poses of this title, the term ‘individual training account’
23 means a trust created or organized in the United States
24 for the exclusive benefit of an individual or his bene-

1 ficiaries, but only if the written governing instrument cre-
2 ating the trust meets the following requirements:—

3 “(1) Except in the case of a rollover contribu-
4 tion described in subsection (b)(3), no contribution
5 will be accepted unless it is in cash, and contribu-
6 tions will not be accepted for the taxable year in ex-
7 cess of \$2,000. —

8 “(2) The trustee is a bank (as defined in sec-
9 tion 408(n)) or such other person who demonstrates
10 to the satisfaction of the Secretary that the manner
11 in which such other person will administer the trust
12 will be consistent with the requirements of this sec-
13 tion.

14 “(3) No part of the trust funds will be invested
15 in life insurance contracts.

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

18 “(5) The assets of the trust will not be commin-
19 gled with other property except in a common trust
20 fund or common investment fund.

21 “(6) Under regulations prescribed by the Sec-
22 retary, rules similar to the rules of section 401(a)(9)
23 and the incidental death benefit requirements of sec-
24 tion 401(a) shall apply to the distribution of the en-

1 tire interest of an individual for whose benefit the
2 trust is maintained.

3 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

4 “(1) COMPENSATION.—The term ‘compensa-
5 tion’ has the meaning given such term by section
6 219(f)(1).

7 “(2) MARRIED INDIVIDUALS.—The maximum
8 deduction under subsection (a) shall be computed
9 separately for each individual, and this section shall
10 be applied without regard to any community prop-
11 erty laws.

12 “(3) TIME WHEN CONTRIBUTIONS DEEMED
13 MADE.—For purposes of this section, a taxpayer
14 shall be deemed to have made a contribution to an
15 individual training account on the last day of the
16 preceding taxable year if the contribution is made on
17 account of such taxable year and is made not later
18 than the time prescribed by law for filing the return
19 for such taxable year (not including extensions
20 thereof).

21 “(4) EMPLOYER PAYMENTS.—For purposes of
22 this title, any amount paid by an employer to an in-
23 dividual training account shall be treated as pay-
24 ment of compensation to the employee (other than a
25 self-employed individual who is an employee within

1 the meaning of section 401(c)(1)) includible in his
2 gross income in the taxable year for which the
3 amount was contributed, whether or not a deduction
4 for such payment is allowable under this section to
5 the employee.

6 “(5) CUSTODIAL ACCOUNTS.—For purposes of
7 this section, a custodial account shall be treated as
8 a trust if the assets of such account are held by a
9 bank (as defined in section 408(n)) or another per-
10 son who demonstrates, to the satisfaction of the Sec-
11 retary, that the manner in which such person will
12 administer the account will be consistent with the re-
13 quirements of this section, and if the custodial ac-
14 count would, except for the fact that it is not a
15 trust, constitute an individual training account de-
16 scribed in this section. For purposes of this title, in
17 the case of a custodial account treated as a trust by
18 reason of the preceding sentence, the custodian of
19 such account shall be treated as the trustee thereof.

20 “(6) REPORTS.—The trustee of an individual
21 training account shall make such reports regarding
22 such account to the Secretary and to the individual
23 for whom the account is maintained with respect to
24 contributions (and the years to which they relate),
25 distributions, and such other matters as the Sec-

1 retary may require under regulations. The reports
2 required by this paragraph—

3 “(A) shall be filed at such time and in
4 such manner as the Secretary prescribes in
5 such regulations, and

6 “(B) shall be furnished to individuals—

7 “(i) not later than January 31 of the
8 calendar year following the calendar year
9 to which such reports relate, and

10 “(ii) in such manner as the Secretary
11 prescribes in such regulations.

12 “(7) INVESTMENT IN COLLECTIBLES TREATED
13 AS DISTRIBUTIONS.—Rules similar to the rules of
14 section 408(m) shall apply for purposes of this sec-
15 tion.

16 “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR
17 QUALIFIED TRAINING EXPENSES.—

18 “(1) IN GENERAL.—If any amount is distrib-
19 uted from an individual training account and is not
20 used exclusively to pay qualified training expenses
21 for a qualified account holder, the tax imposed by
22 this chapter for the taxable year of such distribution
23 shall be increased by 20 percent of the portion of
24 such amount which is includible in gross income.

1 “(2) EXCEPTIONS FOR REQUIRED DISTRIBUTIONS,
2 DISTRIBUTIONS BY REASON OF DEATH, AND
3 DISABILITY.—Paragraph (1) shall not apply to dis-
4 tributions which are—

5 “(A) made pursuant to subsection (f)(6),

6 “(B) made to a beneficiary (or the estate
7 of the account holder) on or after the death of
8 the account holder, or

9 “(C) attributable to an account holder’s
10 being disabled within the meaning of section
11 72(m)(7).

12 “(i) INFLATION ADJUSTMENT.—In the case of any
13 taxable year beginning after 1997, the \$2,000 amount in
14 subsection (a)(2)(A)(i) and the \$12,000 amounts in sub-
15 section (a)(2)(B) and subsection (e)(3) shall each be in-
16 creased by an amount equal to—

17 “(1) such dollar amount, multiplied by

18 “(2) the cost-of-living adjustment determined
19 under section (1)(f)(3) for the calendar year in
20 which the taxable year begins, by substituting ‘1996’
21 for ‘1992’.

22 If any amount as adjusted under the preceding sentence
23 is not a multiple of \$50, such amount shall be rounded
24 to the nearest multiple of \$50.”

1 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
2 TAXPAYER ITEMIZES.—Subsection (a) of section 62 of
3 such Code (relating to adjusted gross income defined) is
4 amended by inserting after paragraph (15) the following
5 new paragraph:

6 “(16) INDIVIDUAL TRAINING ACCOUNTS.—The
7 deduction allowed by section 220.”

8 (c) CONFORMING AMENDMENTS.—

9 (1) TAX ON EXCESS CONTRIBUTIONS.—

10 (A) TAX IMPOSED.—Subsection (a) of sec-
11 tion 4973 of such Code is amended by striking
12 “or” at the end of paragraph (1), adding “or”
13 at the end of paragraph (2), and inserting after
14 paragraph (2) the following new paragraph:

15 “(3) an individual training account (within the
16 meaning of section 220(f)),”

17 (B) EXCESS CONTRIBUTIONS.—Section
18 4973 of such Code is amended by adding at the
19 end the following new subsection:

20 “(d) INDIVIDUAL TRAINING ACCOUNTS.—For pur-
21 poses of this section, in the case of an individual training
22 account, the term ‘excess contributions’ means the sum
23 of—

24 “(1) the excess (if any) of—

1 “(A) the amount contributed for the tax-
2 able year to the account (other than a rollover
3 contribution to which section 220(b)(3) ap-
4 plies), over

5 “(B) the amount allowable as a deduction
6 under section 220 for such contributions, and

7 “(2) the amount determined under this sub-
8 section for the preceding taxable year reduced by the
9 sum of—

10 “(A) the distributions out of the account
11 for the taxable year which were included in the
12 gross income of the payee under section
13 220(b)(1),

14 “(B) the distributions out of the account
15 for the taxable year to which rules similar to
16 the rules of section 408(d)(5) apply by reason
17 of section 220(b)(4), and

18 “(C) the excess (if any) of the maximum
19 amount allowable as a deduction under section
20 220 for the taxable year over the amount con-
21 tributed to the account for the taxable year.

22 For purposes of this subsection, any contribution which
23 is distributed from the individual training account in a dis-
24 tribution to which rules similar to the rules of section

1 408(d)(4) apply by reason of section 220(b)(4) shall be
2 treated as an amount not contributed.”

3 (C) **HEADING.**—The heading of section
4 4973 of such Code is amended by inserting
5 “**INDIVIDUAL TRAINING ACCOUNTS,**” after
6 “**CONTRACTS,**”.

7 (2) **TAX ON PROHIBITED TRANSACTIONS.**—Sec-
8 tion 4975 of such Code is amended—

9 (A) by adding at the end of subsection (c)
10 the following new paragraph:

11 “(4) **SPECIAL RULE FOR INDIVIDUAL TRAINING**
12 **ACCOUNTS.**—An individual for whose benefit an indi-
13 vidual training account is established and any con-
14 tributor to such account shall be exempt from the
15 tax imposed by this section with respect to any
16 transaction concerning such account (which would
17 otherwise be taxable under this section) if, with re-
18 spect to such transaction, the account ceases to be
19 an individual training account by reason of the ap-
20 plication of section 220(e)(2) to such account.”, and

21 (B) by inserting “, an individual training
22 account described in section 220(f),” in sub-
23 section (e)(1) after “described in section
24 408(a)”.

1 (3) INFORMATION RELATING TO CERTAIN
2 TRUSTS AND ANNUITY PLANS.—Subsection (c) of
3 section 6047 of such Code is amended—

4 (A) by inserting “or section 220” after
5 “section 219”, and

6 (B) by inserting “, of any individual train-
7 ing account described in section 220(f),” after
8 “section 408(a)”.

9 (4) INSPECTION OF APPLICATIONS FOR TAX EX-
10 EMPTION.—Clause (i) of section 6104(a)(1)(B) of
11 such Code is amended by inserting “an individual
12 training account described in section 220(f),” after
13 “section 408(a)”.

14 (5) FAILURE TO PROVIDE REPORTS ON INDI-
15 VIDUAL TRAINING ACCOUNTS.—Section 6693 of such
16 Code is amended—

17 (A) by inserting “**OR ON INDIVIDUAL**
18 **TRAINING ACCOUNTS**” after “**ANNUITIES**”
19 in the heading of such section, and

20 (B) by adding at the end of subsection (a)
21 the following new sentence: “The person re-
22 quired by section 220(g)(6) to file a report re-
23 garding an individual training account at the
24 time and in the manner required by such sec-
25 tion shall pay a penalty of \$50 for each failure

1 unless it is shown that such failure is due to
2 reasonable cause.”

3 (d) CLERICAL AMENDMENTS.—

4 (1) The table of sections for part VII of sub-
5 chapter B of chapter 1 is amended by striking the
6 item relating to section 220 and inserting the follow-
7 ing new items:

 “Sec. 220. Individual training accounts.

 “Sec. 221. Cross reference.”

8 (2) The table of sections for chapter 43 of such
9 Code is amended by striking the item relating to sec-
10 tion 4973 and inserting the following new item:

 “Sec. 4973. Tax on excess contributions to individual retirement
 accounts, certain section 403(b) contracts, individ-
 ual training accounts, and certain individual retire-
 ment annuities.”

11 (3) The table of sections for part I of sub-
12 chapter B of chapter 68 of such Code is amended
13 by striking the item relating to section 6693 and in-
14 serting the following new item:

 “Sec. 6693. Failure to provide reports on individual retirement
 accounts or annuities or on individual training ac-
 counts; overstatement of designated nondeductible
 contributions.”

15 (e) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 the date of the enactment of this Act.

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