

104TH CONGRESS
1ST SESSION

H. R. 328

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1995

Mr. MCCRERY 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 a deduction for contributions to individual investment accounts, 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. SHORT TITLE.**

4 This Act may be cited as the “Individual Investment
5 Account Act of 1993”.

6 **SEC. 2. ESTABLISHMENT OF INDIVIDUAL INVESTMENT AC-**
7 **COUNTS.**

8 (a) IN GENERAL.—Part VII of subchapter B of chap-
9 ter 1 of the Internal Revenue Code of 1986 (relating to
10 additional itemized deductions for individuals) is amended

1 by redesignating section 220 as section 221 and by insert-
2 ing after section 219 the following new section:

3 **“SEC. 220. INDIVIDUAL INVESTMENT ACCOUNTS.**

4 “(a) DEDUCTION ALLOWED.—In the case of an indi-
5 vidual, there shall be allowed as a deduction an amount
6 equal to the aggregate amount paid in cash for the taxable
7 year by such individual to an individual investment ac-
8 count established for the benefit of such individual.

9 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-
10 poses of this section—

11 “(1) INDIVIDUAL INVESTMENT ACCOUNT.—The
12 term ‘individual investment account’ means a trust
13 created or organized in the United States for the ex-
14 clusive benefit of an individual, but only if the writ-
15 ten governing instrument creating the trust meets
16 the following requirements:

17 “(A) No contribution will be accepted un-
18 less it is in cash.

19 “(B) The trustee is a bank (as defined in
20 section 408(n)) or another person who dem-
21 onstrates to the satisfaction of the Secretary
22 that the manner in which that person will ad-
23 minister the trust will be consistent with the re-
24 quirements of this section.

1 “(C) No part of the trust assets will be in-
2 vested in any collectable (as defined in section
3 408(m)).

4 “(D) The assets of the trust will not be
5 commingled with other property except in a
6 common trust fund or common investment
7 fund.

8 “(2) TIME WHEN CONTRIBUTIONS DEEMED
9 MADE.—A taxpayer shall be deemed to have made a
10 contribution on the last day of a taxable year if the
11 contribution is made on account of such taxable year
12 and is made not later than the time prescribed by
13 law for filing the return for such taxable year (not
14 including extensions thereof).

15 “(c) TAX TREATMENT OF DISTRIBUTIONS.—

16 “(1) IN GENERAL.—Except as otherwise pro-
17 vided in this subsection, any amount distributed out
18 of an individual investment account shall be included
19 in gross income by the distributee unless such
20 amount is part of a qualified 1st-time homebuyer
21 distribution.

22 “(2) QUALIFIED 1ST-TIME HOMEBUYER DIS-
23 TRIBUTION.—For purposes of this subsection—

24 “(A) IN GENERAL.—The term ‘qualified
25 1st-time homebuyer distribution’ means any

1 payment or distribution received by a 1st-time
2 homebuyer from an individual investment ac-
3 count to the extent such payment or distribu-
4 tion is used by the individual within 60 days to
5 pay qualified acquisition costs with respect to a
6 principal residence for such individual.

7 “(B) DOLLAR LIMITATION.—The aggre-
8 gate amount which may be treated as qualified
9 1st-time homebuyer distributions for all taxable
10 years shall not exceed \$15,000.

11 “(C) BASIS REDUCTION.—The basis of any
12 principal residence described in subparagraph
13 (A) shall be reduced by the amount of any
14 qualified 1st-time homebuyer distribution.

15 “(D) DEFINITIONS.—For purposes of this
16 paragraph—

17 “(i) QUALIFIED ACQUISITION
18 COSTS.—The term ‘qualified acquisition
19 costs’ means the costs of acquiring, con-
20 structing, or reconstructing a residence.
21 Such term includes any usual or reason-
22 able settlement, financing, or other closing
23 costs.

24 “(ii) 1ST-TIME HOMEBUYER.—The
25 term ‘1st-time homebuyer’ means any indi-

vidual if such individual had no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this paragraph applies.

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

“(3) TRANSFER OF ACCOUNT INCIDENT TO DIVORCE.—The transfer of an individual’s interest in an individual investment account to his former spouse under a divorce decree or under a written instrument incident to a divorce shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest at the time of the transfer shall be treated as an individual investment account of such spouse and not of such individual. Thereafter such account shall be treated, for purposes of this subtitle, as maintained for the benefit of such spouse.

“(d) TAX TREATMENT OF ACCOUNTS.—

“(1) EXEMPTION FROM TAX.—An individual investment account shall be exempt from taxation under this subtitle unless such account has ceased to be such an account by reason of paragraph (2). Not-

1 withstanding the preceding sentence, any such ac-
2 count shall be subject to the taxes imposed by sec-
3 tion 511 (relating to imposition of tax on unrelated
4 business income of charitable, etc. organizations).

5 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
6 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
7 ACTION.—

8 “(A) IN GENERAL.—If, during any taxable
9 year of the individual for whose benefit the indi-
10 vidual investment account is established, that
11 individual engages in any transaction prohibited
12 by section 4975 with respect to the account, the
13 account shall cease to be an individual invest-
14 ment account as of the first day of that taxable
15 year.

16 “(B) ACCOUNT TREATED AS DISTRIBUTING
17 ALL ITS ASSETS.—In any case in which any ac-
18 count ceases to be an individual investment ac-
19 count by reason of subparagraph (A) on the
20 first day of any taxable year, paragraph (1) of
21 subsection (c) shall be applied as if there were
22 a distribution on such first day in an amount
23 equal to the fair market value (on such first
24 day) of all assets in the account (on such first
25 day).

1 “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-
2 RITY.—If, during any taxable year, an individual for
3 whose benefit an individual investment account is es-
4 tablished uses the account or any portion thereof as
5 security for a loan, the portion so used shall be
6 treated as distributed to that individual.

7 “(4) ROLLOVER CONTRIBUTIONS.—Paragraph
8 (1) shall not apply to any amount paid or distrib-
9 uted out of an individual investment account to the
10 individual for whose benefit the account is main-
11 tained if such amount is paid into another individual
12 investment account for the benefit of such individual
13 not later than the 60th day after the day on which
14 he receives the payment or distribution.

15 “(e) COST-OF-LIVING ADJUSTMENT.—

16 “(1) IN GENERAL.—In the case of any taxable
17 year beginning in a calendar year after 1992, the
18 dollar amount contained in subsection (c)(2)(B)
19 shall be increased by an amount equal to—

20 “(A) such dollar amount, multiplied by

21 “(B) the cost-of-living adjustment deter-
22 mined under section 1(f)(3) for the calendar
23 year in which the taxable year begins.

24 “(2) ROUNDING.—If any dollar amount (as in-
25 creased under paragraph (1)) is not a multiple of

1 \$10, such dollar amount shall be increased to near-
2 est multiple of \$10 (or, if such dollar amount is a
3 multiple of \$5 and not of \$10, such dollar amount
4 shall be increased to next higher multiple of \$10).

5 “(f) CUSTODIAL ACCOUNTS.—For purposes of this
6 section, a custodial account shall be treated as a trust if
7 the assets of such account are held by a bank (as defined
8 in section 408(n)) or another person who demonstrates,
9 to the satisfaction of the Secretary, that the manner in
10 which he will administer the account will be consistent
11 with the requirements of this section, and if the custodial
12 account would, except for the fact that it is not a trust,
13 constitute an individual investment account described in
14 subsection (b). For purposes of this title, in the case of
15 a custodial account treated as a trust by reason of the
16 preceding sentence, the custodian of such account shall be
17 treated as the trustee thereof.

18 “(g) REPORTS.—The trustee of an individual invest-
19 ment account shall make such reports regarding such ac-
20 count to the Secretary and to the individual for whose ben-
21 efit the account is maintained with respect to contribu-
22 tions, distributions, and such other matters as the Sec-
23 retary may require under regulations. The reports re-
24 quired by this subsection shall be filed at such time and
25 in such manner and furnished to such individuals at such

1 time and in such manner as may be required by those reg-
2 ulations.”

3 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-
4 JUSTED GROSS INCOME.—Subsection (a) of section 62 of
5 such Code (defining adjusted gross income) is amended
6 by inserting after paragraph (15) the following new para-
7 graph:

8 “(16) INDIVIDUAL INVESTMENT ACCOUNT CON-
9 TRIBUTIONS.—The deduction allowed by section 220
10 (relating to individual investment accounts).”

11 (c) INDIVIDUAL INVESTMENT ACCOUNTS EXEMPT
12 FROM ESTATE TAX.—Part III of subchapter A of chapter
13 11 of such Code is amended by redesignating section 2046
14 as section 2047 and by inserting after section 2045 the
15 following new section:

16 “**SEC. 2046. INDIVIDUAL INVESTMENT ACCOUNTS.**

17 “Notwithstanding any other provision of law, there
18 shall be excluded from the value of the gross estate of the
19 value of any individual investment account (as defined in
20 section 220(b)). Section 1014 shall not apply to such ac-
21 counts.”

22 (d) NONRECOGNITION OF GAIN ON SALE OF PRIN-
23 CIPAL RESIDENCE WHERE AMOUNT EQUAL TO OTHER-
24 WISE TAXABLE GAIN DEPOSITED INTO INDIVIDUAL IN-
25 VESTMENT ACCOUNT.—Part III of subchapter B of chap-

1 ter 1 of such Code is amended by inserting after section
2 121 the following new section:

3 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**
4 **RESIDENCE IF REINVESTMENT IN INDIVID-**
5 **UAL INVESTMENT ACCOUNT.**

6 “(a) GENERAL RULE.—Gross income does not in-
7 clude gain from the sale or exchange of property if, during
8 the 5-year period ending on the date of the sale or ex-
9 change, such property has been owned and used by the
10 taxpayer as his principal residence for periods aggregating
11 3 years or more.

12 “(b) LIMITATION.—The amount of gain excluded
13 from gross income under subsection (a) shall not exceed
14 the amount paid in cash (during the 1-year period begin-
15 ning on the date of the sale or exchange) to an individual
16 investment account (as defined in section 220(b)) estab-
17 lished for the benefit of the taxpayer or his spouse.

18 “(c) CERTAIN RULES ON OWNERSHIP AND USE TO
19 APPLY.—Rules similar to the rules of section 121(d) shall
20 apply for purposes of determining ownership and use
21 under this section.”

22 (e) TAX ON PROHIBITED TRANSACTIONS.—Section
23 4975 of such Code (relating to prohibited transactions)
24 is amended—

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

3 “(4) SPECIAL RULE FOR INDIVIDUAL INVEST-
4 MENT ACCOUNTS.—An individual for whose benefit
5 an individual investment account is established shall
6 be exempt from the tax imposed by this section with
7 respect to any transaction concerning such account
8 (which would otherwise be taxable under this sec-
9 tion) if, with respect to such transaction, the ac-
10 count ceases to be an individual investment account
11 by reason of the application of section 220(d)(2)(A)
12 to such account.”; and

13 (2) by inserting “or an individual investment
14 account described in section 220(b)” in subsection
15 (e)(1) after “described in section 408(a)”.

16 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL
17 INVESTMENT ACCOUNTS.—Section 6693 of such Code (re-
18 lating to failure to provide reports on individual retirement
19 account or annuities) is amended—

20 (1) by inserting “**OR ON INDIVIDUAL IN-**
21 **VESTMENT ACCOUNTS**” after “**ANNUITIES**” in
22 the heading of such section; and

23 (2) by adding at the end of subsection (a) the
24 following: “The person required by section 220(g) to
25 file a report regarding an individual investment ac-

1 count at the time and in the manner required by
2 such section shall pay a penalty of \$50 for each fail-
3 ure unless it is shown that such failure is due to rea-
4 sonable cause.”

5 (g) ADJUSTMENT OF BASIS OF RESIDENCE AC-
6 QUIRED THROUGH USE OF ACCOUNT.—Subsection (a) of
7 section 1016 of such Code is amended by striking “and”
8 at the end of paragraph (24), by striking the period at
9 the end of paragraph (25) and inserting “; and”, and by
10 adding at the end thereof the following new paragraph:

11 “(26) to the extent provided in section
12 220(c)(2)(C), in the case of a residence the acquisi-
13 tion of which was made in whole or in part with
14 funds from an individual investment account.”

15 (h) CLERICAL AMENDMENTS.—

16 (1) The table of sections for part III of sub-
17 chapter B of chapter 1 of such Code is amended by
18 inserting after the item relating to section 121 the
19 following new item:

“Sec. 121A. Exclusion of gain from sale of principal residence if
reinvestment in individual investment account.”

20 (2) The table of sections for part VII of sub-
21 chapter B of chapter 1 of such Code is amended by
22 striking the item relating to section 220 and insert-
23 ing the following:

“Sec. 220. Individual investment accounts.
“Sec. 221. Cross reference.”

1 (3) The table of sections for part III of sub-
2 chapter A of chapter 11 of such Code is amended by
3 striking the item relating to section 2046 and insert-
4 ing the following new items:

 “Sec. 2046. Individual investment accounts.
 “Sec. 2047. Disclaimers.”

5 (4) The table of sections for subchapter B of
6 chapter 68 of such Code is amended by striking the
7 item relating to section 6693 and inserting the fol-
8 lowing:

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

9 (i) **EFFECTIVE DATE.**—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 1992.

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