

104TH CONGRESS  
2D SESSION

# H. R. 4253

To enhance the financial security of children by providing for contributions  
by the Federal Government to Child Retirement Accounts.

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IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 27, 1996

Mr. HOUGHTON (for himself and Mrs. KENNELLY) introduced the following  
bill; which was referred to the Committee on Ways and Means

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## A BILL

To enhance the financial security of children by providing  
for contributions by the Federal Government to Child  
Retirement 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. SHORT TITLE.**

4 This Act may be cited as the “Children’s Financial  
5 Security Act of 1996”.

1 **SEC. 2. FEDERAL CONTRIBUTIONS TO CHILD RETIREMENT**  
2 **ACCOUNTS.**

3 (a) IN GENERAL.—As soon as practicable after the  
4 close of each calendar year, the Secretary of the Treasury  
5 or his delegate shall transfer for such calendar year, from  
6 amounts in the general fund of the Treasury not otherwise  
7 appropriated, \$1,000 to the Child Retirement Account of  
8 each individual who is an eligible child for such calendar  
9 year.

10 (b) ELIGIBLE CHILD.—For purposes of this section,  
11 the term “eligible child” means, with respect to any cal-  
12 endar year, any individual who, as of the close of such  
13 calendar year—

14 (1) is a citizen or resident alien of the United  
15 States, and

16 (2) has not attained age 6.

17 (c) REDUCTION IN CONTRIBUTION FOR CHILDREN  
18 OF HIGH INCOME PARENTS.—

19 (1) IN GENERAL.—If, with respect to an eligible  
20 child, the adjusted gross income of the applicable  
21 taxpayer for the taxable year ending with or within  
22 a calendar year exceeds the threshold amount, the  
23 \$1,000 amount in subsection (a) with respect to  
24 such child for such calendar year shall be reduced  
25 (but not below zero) by the amount which bears the

1 same ratio to \$1,000 as such excess bears to the  
2 phaseout range.

3 (2) APPLICABLE TAXPAYER MAY MAKE-UP RE-  
4 DUCED CONTRIBUTION.—If there is a reduction  
5 under this subsection in the amount transferred  
6 under subsection (a) to the Child Retirement Ac-  
7 count of an eligible child for any calendar year, the  
8 applicable taxpayer with respect to such child may  
9 (at such time and in such manner as the Secretary  
10 may prescribe) transfer an amount equal to the  
11 amount of such reduction to the Child Retirement  
12 Account of such child.

13 (d) CHILDREN BELOW AGE 19 AS OF ENACTMENT.—

14 (1) IN GENERAL.—In the case of an individual  
15 who, as of the close of 1996—

16 (A) is a citizen or resident alien of the  
17 United States, and

18 (B) has not attained age 19,  
19 the applicable taxpayer with respect to such individ-  
20 ual may (at such time and in such manner as the  
21 Secretary may prescribe) contribute to the Child Re-  
22 tirement Account of such child an amount equal to  
23 the lesser of \$6,000 or the product of \$1,000 and  
24 the age of such child as of the close of 1996. Any

1 contribution under the preceding sentence may be  
2 made only during 1997 and 1998.

3 (2) REDUCTION OF CONTRIBUTION FOR CHIL-  
4 DREN OF HIGH INCOME PARENTS.—If, with respect  
5 to an individual described in paragraph (1), the ad-  
6 justed gross income of the applicable taxpayer for  
7 the taxable year ending with or within 1997 exceeds  
8 the threshold amount, the amount otherwise deter-  
9 mined under paragraph (1) with respect to such in-  
10 dividual shall be reduced (but not below zero) by the  
11 amount which bears the same ratio to the amount  
12 so otherwise determined as such excess bears to the  
13 phaseout range.

14 (e) DEFINITIONS.—For purposes of subsections (c)  
15 and (d)—

16 (1) PHASEOUT RANGE.—The term “phaseout  
17 range” means—

18 (A) \$50,000 in the case of a joint return,

19 (B) \$33,000 in the case of an individual  
20 who is not married, and

21 (C) \$25,000 in the case of a married indi-  
22 vidual filing a separate return.

23 (2) THRESHOLD AMOUNT.—The term “thresh-  
24 old amount” means—

1 (A) \$100,000 in the case of a joint return  
2 for such taxable year,

3 (B) \$67,000 in the case of an individual  
4 who is not married, and

5 (C) \$50,000 in the case of a married indi-  
6 vidual filing a separate return.

7 (3) APPLICABLE TAXPAYER.—The term “appli-  
8 cable taxpayer” means, with respect to an eligible  
9 child—

10 (A) the taxpayer to whom a deduction is  
11 allowable under section 151(c) of the Internal  
12 Revenue Code of 1986 for such child, or

13 (B) if no taxpayer is described in subpara-  
14 graph (A), such child.

15 **SEC. 3. CHILD RETIREMENT ACCOUNTS.**

16 (a) IN GENERAL.—Subchapter F of chapter 1 of the  
17 Internal Revenue Code of 1986 (relating to exempt organi-  
18 zations) is amended by adding at the end the following  
19 new part:

20 **“PART VIII—CHILD RETIREMENT**  
21 **ACCOUNTS**

“Sec. 529. Child Retirement Accounts.

22 **“SEC. 529. CHILD RETIREMENT ACCOUNTS.**

23 “(a) CHILD RETIREMENT ACCOUNT.—For purposes  
24 of this part, the term ‘Child Retirement Account’ means

1 any trust created or organized in the United States for  
2 the exclusive benefit of the account beneficiary but only  
3 if the written governing instrument creating the trust  
4 meets the following requirements:

5           “(1) No contribution will be accepted unless it  
6 is in cash.

7           “(2) The only contributions which will be ac-  
8 cepted are—

9                   “(A) contributions under section 2 of the  
10 Children’s Financial Security Act of 1996,

11                   “(B) contributions of not more than \$100  
12 for each calendar year after the calendar year  
13 in which the account beneficiary attains age 5  
14 and before the calendar year in which such ben-  
15 efiary attains age 19, and

16                   “(C) trustee-to-trustee transfers to such  
17 trust from another Child Retirement Account of  
18 the account beneficiary.

19           “(3) The assets of the trust are invested only  
20 in an approved mutual fund.

21           “(4) The requirements of paragraphs (2)  
22 through (6) of section 408(a) are met.

23           “(b) TAX TREATMENT OF ACCOUNTS.—

24                   “(1) IN GENERAL.—A Child Retirement Ac-  
25 count is exempt from taxation under this subtitle

1 unless such account has ceased to be a Child Retirement  
2 Account. Notwithstanding the preceding sentence,  
3 any such Account is subject to the taxes imposed  
4 by section 511 (relating to imposition of tax  
5 on unrelated business income of charitable, etc., or  
6 organizations).

7 “(2) ACCOUNT TERMINATIONS.—Rules similar  
8 to the rules of paragraphs (2) and (4) of section  
9 408(e) shall apply to Child Retirement Accounts; ex-  
10 cept that such paragraph (4) shall not apply to loans  
11 which are qualified special purpose distributions.

12 “(c) TAX TREATMENT OF DISTRIBUTIONS.—

13 “(1) IN GENERAL.—

14 “(A) WITHHOLDING.—The trustee of a  
15 Child Retirement Account shall deduct and  
16 withhold from any distribution from such Ac-  
17 count a tax equal to 20 percent of such dis-  
18 tribution.

19 “(B) NO OTHER TAX.—Distributions from  
20 a Child Retirement Account shall not be includ-  
21 ible in gross income.

22 “(C) CREDIT FOR AMOUNTS WITHHELD  
23 ONLY ON QUALIFIED SPECIAL PURPOSE LOAN  
24 DISTRIBUTIONS WHICH ARE REPAID.—In the  
25 case of an amount withheld under subpara-

1 graph (A) on a qualified special purpose dis-  
2 tribution from a Child Retirement Account in  
3 the form of a loan, there shall be allowed as a  
4 credit against the tax imposed by this subtitle  
5 for any taxable year an amount which bears the  
6 same ratio to the amount withheld as the prin-  
7 cipal amount of such loan which is repaid dur-  
8 ing such taxable year bears to the total prin-  
9 cipal amount of the loan. The credit allowed  
10 under the preceding sentence shall be treated as  
11 a credit allowed under subpart C of part IV of  
12 subchapter A of this chapter and shall be al-  
13 lowed to the account beneficiary.

14 “(2) PENALTY ON DISTRIBUTIONS NOT USED  
15 FOR QUALIFIED PURPOSES.—If any distribution is  
16 made from a Child Retirement Account which is not  
17 a qualified distribution, the account beneficiary’s tax  
18 imposed by this chapter for the taxable year in  
19 which such distribution is made shall be increased by  
20 an amount equal to 50 percent of such distribution.

21 “(3) QUALIFIED DISTRIBUTION.—For purposes  
22 of paragraph (2), the term ‘qualified distribution’  
23 means any distribution—

24 “(A) made on or after the date on which  
25 the account beneficiary attains age 59½,

1           “(B) made to a beneficiary (or to the es-  
2           tate of the individual) on or after the death of  
3           the account beneficiary,

4           “(C) attributable to the account bene-  
5           ficiary being disabled (within the meaning of  
6           section 72(m)(7)), or

7           “(D) which is a qualified special purpose  
8           distribution.

9           “(4) QUALIFIED SPECIAL PURPOSE DISTRIBUTION.—For purposes of paragraph (3), the term  
10          ‘qualified special purpose distribution’ means any  
11          distribution (including in the form of a loan) from  
12          a Child Retirement Account to the account bene-  
13          ficiary—

14                   “(A) if such distribution is a qualified  
15                   first-time homebuyer distribution, or

16                   “(B) to the extent the aggregate distribu-  
17                   tions from the Account does not exceed the  
18                   qualified higher education expenses of the ac-  
19                   count beneficiary for the taxable year in which  
20                   received.  
21

22          Such term shall not include any distribution from  
23          such an Account during a calendar year to the ex-  
24          tent such distribution, when added to the amount of  
25          all prior distributions from such Account during the

1 calendar year and all prior calendar years, exceeds  
2 an amount equal to 50 percent of the balance in  
3 such Account as of the close of the prior calendar  
4 year.

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

7 “(A) IN GENERAL.—For purposes of this  
8 subsection, the term ‘qualified first-time home-  
9 buyer distribution’ means any payment or dis-  
10 tribution received by the account beneficiary to  
11 the extent such payment or distribution is used  
12 by such beneficiary within a reasonable period  
13 to pay qualified acquisition costs with respect to  
14 a principal residence for such beneficiary as a  
15 first-time homebuyer.

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

23 “(C) FIRST-TIME HOMEBUYER; OTHER  
24 DEFINITIONS.—For purposes of this para-  
25 graph—

1           “(i) FIRST-TIME HOMEBUYER.—The  
2           term ‘first-time homebuyer’ means any in-  
3           dividual if such individual (and, if married,  
4           such individual’s spouse) had no present  
5           ownership interest in a principal residence  
6           during the 3-year period ending on the  
7           date of acquisition of the principal resi-  
8           dence to which this paragraph applies.

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

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

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

18                 “(II) on which a binding contract  
19                 to construct or reconstruct such a  
20                 principal residence is entered into.

21          “(6) QUALIFIED HIGHER EDUCATION EX-  
22          PENSES.—For purposes of this subsection—

23                 “(A) IN GENERAL.—The term ‘qualified  
24                 higher education expenses’ means—

1           “(i) expenses for tuition, fees, books,  
2           supplies, and equipment required for the  
3           enrollment or attendance of the account  
4           beneficiary at an eligible educational insti-  
5           tution (as defined in section 135(c)(3)),  
6           and

7           “(ii) reasonable living expenses while  
8           away from home while attending such in-  
9           stitution.

10           “(B) COORDINATION WITH SAVINGS BOND  
11           PROVISIONS.—The amount of qualified higher  
12           education expenses for any taxable year shall be  
13           reduced by any amount excludable from gross  
14           income under section 135.

15           “(7) EXCEPTIONS FROM WITHHOLDING TAX  
16           AND PENALTY FOR TRUSTEE-TO-TRUSTEE TRANS-  
17           FERS.—Paragraphs (1)(A) and (2) shall not apply  
18           to any trustee-to-trustee transfers from a Child Re-  
19           tirement Account to another Child Retirement Ac-  
20           count of the same account beneficiary.

21           “(d) APPROVED MUTUAL FUND.—For purposes of  
22 this section—

23           “(1) IN GENERAL.—The term ‘approved mutual  
24           fund’ means any fund of any regulated investment  
25           company (as defined in section 851(a)) if—

1           “(A) an election under section 851(b)(1) is  
2           in effect with respect to such company, and

3           “(B) such fund is designated by the Fed-  
4           eral Retirement Thrift Investment Board for  
5           purposes of this section.

6           “(2) STANDARDS FOR DESIGNATION.—A fund  
7           may be designated under paragraph (1) only if the  
8           Federal Retirement Thrift Investment Board deter-  
9           mines that it is reasonable to expect that not less  
10          than 75 percent of the total value of the assets of  
11          such fund are represented by equity securities.

12          “(e) CERTAIN RULES TO APPLY.—Rules similar to  
13          the following rules shall apply for purposes of this section:

14                 “(1) Section 219(f)(3) (relating to time when  
15                 contributions deemed made).

16                 “(2) Section 408(g) (relating to community  
17                 property laws).

18                 “(3) Section 408(h) (relating to custodial ac-  
19                 counts).

20          “(f) REPORTS.—The Secretary may require the  
21          trustee of a Child Retirement Account to make such re-  
22          ports regarding such Account to the Secretary and to the  
23          account beneficiary with respect to contributions, distribu-  
24          tions, and such other matters as the Secretary determines  
25          appropriate. The reports required by this subsection shall

1 be filed at such time and in such manner and furnished  
2 to such individuals at such time and in such manner as  
3 may be required by the Secretary.”

4 (b) CONFORMING AMENDMENTS.—

5 (1) TAX ON PROHIBITED TRANSACTIONS.—

6 (A) Section 4975 of such Code (relating to  
7 tax on prohibited transactions) is amended by  
8 adding at the end of subsection (c) the follow-  
9 ing new paragraph:

10 “(5) SPECIAL RULE FOR CHILD RETIREMENT  
11 ACCOUNTS.—An individual for whose benefit a Child  
12 Retirement Account (within the meaning of section  
13 529(a)) is established shall be exempt from the tax  
14 imposed by this section with respect to any trans-  
15 action concerning such account (which would other-  
16 wise be taxable under this section) if, with respect  
17 to such transaction, the account ceases to be a Child  
18 Retirement Account by reason of the application of  
19 section 529(b)(2) to such Account.”

20 (B) Paragraph (1) of section 4975(e) of  
21 such Code is amended by striking “or” at the  
22 end of subparagraph (D), by redesignating sub-  
23 paragraph (E) as subparagraph (F), and by in-  
24 serting after subparagraph (D) the following  
25 new subparagraph:

1                   “(E) a Child Retirement Account described  
2                   in section 529(a), or”.

3                   (2) FAILURE TO PROVIDE REPORTS ON CHILD  
4                   RETIREMENT ACCOUNTS.—Paragraph (2) of section  
5                   6693(a) of such Code is amended by striking “and”  
6                   at the end of subparagraph (A), by striking the pe-  
7                   riod at the end of subparagraph (B) and inserting  
8                   “, and”, and by adding at the end the following new  
9                   subparagraph:

10                   “(C) section 529(f) (relating to Child Re-  
11                   tirement Accounts).”

12                   (3) CLERICAL AMENDMENT.—The table of  
13                   parts for subchapter F of chapter 1 of such Code is  
14                   amended by adding at the end the following new  
15                   item:

                  “Part VIII. Child Retirement Accounts.”

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

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