

105TH CONGRESS
1ST SESSION

H. R. 194

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

IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 1997

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

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 1997”.

6 **SEC. 2. FEDERAL CONTRIBUTIONS TO CHILD RETIREMENT**
7 **ACCOUNTS.**

8 (a) IN GENERAL.—As soon as practicable after the
9 close of each calendar year, the Secretary of the Treasury
10 or his delegate shall transfer for such calendar year, from

1 amounts in the general fund of the Treasury not otherwise
2 appropriated, \$1,000 to the Child Retirement Account of
3 each individual who is an eligible child for such calendar
4 year.

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

9 (1) is a citizen or resident alien of the United
10 States, and

11 (2) has not attained age 6.

12 (c) REDUCTION IN CONTRIBUTION FOR CHILDREN
13 OF HIGH INCOME PARENTS.—

14 (1) IN GENERAL.—If, with respect to an eligible
15 child, the adjusted gross income of the applicable
16 taxpayer for the taxable year ending with or within
17 a calendar year exceeds the threshold amount, the
18 \$1,000 amount in subsection (a) with respect to
19 such child for such calendar year shall be reduced
20 (but not below zero) by the amount which bears the
21 same ratio to \$1,000 as such excess bears to the
22 phaseout range.

23 (2) APPLICABLE TAXPAYER MAY MAKE-UP RE-
24 DUCED CONTRIBUTION.—If there is a reduction
25 under this subsection in the amount transferred

1 under subsection (a) to the Child Retirement Ac-
2 count of an eligible child for any calendar year, the
3 applicable taxpayer with respect to such child may
4 (at such time and in such manner as the Secretary
5 may prescribe) transfer an amount equal to the
6 amount of such reduction to the Child Retirement
7 Account of such child.

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

9 (1) IN GENERAL.—In the case of an individual
10 who, as of the close of 1997—

11 (A) is a citizen or resident alien of the
12 United States, and

13 (B) has not attained age 19,

14 the applicable taxpayer with respect to such individ-
15 ual may (at such time and in such manner as the
16 Secretary may prescribe) contribute to the Child Re-
17 tirement Account of such child an amount equal to
18 the lesser of \$6,000 or the product of \$1,000 and
19 the age of such child as of the close of 1997. Any
20 contribution under the preceding sentence may be
21 made only during 1998 and 1999.

22 (2) REDUCTION OF CONTRIBUTION FOR CHIL-
23 DREN OF HIGH INCOME PARENTS.—If, with respect
24 to an individual described in paragraph (1), the ad-
25 justed gross income of the applicable taxpayer for

1 the taxable year ending with or within 1998 exceeds
2 the threshold amount, the amount otherwise deter-
3 mined under paragraph (1) with respect to such in-
4 dividual shall be reduced (but not below zero) by the
5 amount which bears the same ratio to the amount
6 so otherwise determined as such excess bears to the
7 phaseout range.

8 (e) DEFINITIONS.—For purposes of subsections (c)
9 and (d)—

10 (1) PHASEOUT RANGE.—The term “phaseout
11 range” means—

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

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

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

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

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

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

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

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

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

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

9 **SEC. 3. CHILD RETIREMENT ACCOUNTS.**

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

14 **“PART IX—CHILD RETIREMENT**
15 **ACCOUNTS**

“Sec. 530. Child Retirement Accounts.

16 **“SEC. 530. CHILD RETIREMENT ACCOUNTS.**

17 “(a) CHILD RETIREMENT ACCOUNT.—For purposes
18 of this part, the term ‘Child Retirement Account’ means
19 any trust created or organized in the United States for
20 the exclusive benefit of the account beneficiary but only
21 if the written governing instrument creating the trust
22 meets the following requirements:

23 “(1) No contribution will be accepted unless it
24 is in cash.

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

3 “(A) contributions under section 2 of the
4 Children’s Financial Security Act of 1997,

5 “(B) contributions of not more than \$100
6 for each calendar year after the calendar year
7 in which the account beneficiary attains age 5
8 and before the calendar year in which such ben-
9 eficiary attains age 19, and

10 “(C) trustee-to-trustee transfers to such
11 trust from another Child Retirement Account of
12 the account beneficiary.

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

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

17 “(b) TAX TREATMENT OF ACCOUNTS.—

18 “(1) IN GENERAL.—A Child Retirement Ac-
19 count is exempt from taxation under this subtitle
20 unless such account has ceased to be a Child Retire-
21 ment Account. Notwithstanding the preceding sen-
22 tence, any such Account is subject to the taxes im-
23 posed by section 511 (relating to imposition of tax
24 on unrelated business income of charitable, etc., or-
25 ganizations).

1 “(2) ACCOUNT TERMINATIONS.—Rules similar
2 to the rules of paragraphs (2) and (4) of section
3 408(e) shall apply to Child Retirement Accounts; ex-
4 cept that such paragraph (4) shall not apply to loans
5 which are qualified special purpose distributions.

6 “(c) TAX TREATMENT OF DISTRIBUTIONS.—

7 “(1) IN GENERAL.—

8 “(A) WITHHOLDING.—The trustee of a
9 Child Retirement Account shall deduct and
10 withhold from any distribution from such Ac-
11 count a tax equal to 20 percent of such dis-
12 tribution.

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

16 “(C) CREDIT FOR AMOUNTS WITHHELD
17 ONLY ON QUALIFIED SPECIAL PURPOSE LOAN
18 DISTRIBUTIONS WHICH ARE REPAID.—In the
19 case of an amount withheld under subpara-
20 graph (A) on a qualified special purpose dis-
21 tribution from a Child Retirement Account in
22 the form of a loan, there shall be allowed as a
23 credit against the tax imposed by this subtitle
24 for any taxable year an amount which bears the

1 same ratio to the amount withheld as the prin-
2 cipal amount of such loan which is repaid dur-
3 ing such taxable year bears to the total prin-
4 cipal amount of the loan. The credit allowed
5 under the preceding sentence shall be treated as
6 a credit allowed under subpart C of part IV of
7 subchapter A of this chapter and shall be al-
8 lowed to the account beneficiary.

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

16 “(3) QUALIFIED DISTRIBUTION.—For purposes
17 of paragraph (2), the term ‘qualified distribution’
18 means any distribution—

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

21 “(B) made to a beneficiary (or to the es-
22 tate of the individual) on or after the death of
23 the account beneficiary,

1 “(C) attributable to the account bene-
2 ficiary being disabled (within the meaning of
3 section 72(m)(7)), or

4 “(D) which is a qualified special purpose
5 distribution.

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

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

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

19 Such term shall not include any distribution from
20 such an Account during a calendar year to the ex-
21 tent such distribution, when added to the amount of
22 all prior distributions from such Account during the
23 calendar year and all prior calendar years, exceeds
24 an amount equal to 50 percent of the balance in

1 such Account as of the close of the prior calendar
2 year.

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

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

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

21 “(C) FIRST-TIME HOMEBUYER; OTHER
22 DEFINITIONS.—For purposes of this para-
23 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
13 530(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 530(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 530(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 530(f) (relating to Child Re-
11 tirement Accounts).”

12 (3) CLERICAL AMENDMENTS.—

13 (A) The table of parts for subchapter F of
14 chapter 1 of such Code is amended by adding
15 at the end the following new item:

 “Part IX. Child Retirement Accounts.”

16 (B) The section heading for section 6693
17 of such Code is amended to read as follows:

18 **“SEC. 6693. FAILURE TO PROVIDE REPORTS ON CERTAIN**
19 **RETIREMENT ACCOUNTS, ETC.”**

20 (C) The table of sections for part I of sub-
21 chapter B of chapter 68 of such Code is amend-
22 ed by striking the item relating to section 6693
23 and inserting the following new item:

 “Sec. 6693. Failure to provide reports on certain retirement ac-
 counts, etc.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1997.

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