[JOINT COMMITTEE PRINT]

DESCRIPTION OF BILLS TO PROVIDE TAX INCENTIVES FOR SAVINGS

SCHEDULED FOR A HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

ON JANUARY 29-31, 1980

PREPARED FOR THE USE OF THE

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BY THE STAFF OF THE

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INTRODUCTION

The bills described in this pamphlet relate to several approaches through which it is possible to provide tax incentives for savings. The Committee on Ways and Means has scheduled public hearings for January 29–31, 1980, on this subject so that the different approaches may be examined.

In the announcements of the scheduled hearings, the Committee indicated that the hearings would cover proposals to provide incentives for savings through exclusions from income, deductions and credits for the income earned on savings, tax deferral for various forms of savings, rollover plans to encourage continuation of and additions to saving, improvement and modifications in the Individual Retirement Accounts (IRA), and dividend reinvestment plans.

In connection with these hearings, the staff of the Joint Committee on Taxation has prepared descriptions of some of the bills. The bills have been divided into 3 groups: the tax treatment of savings: tax treatment of dividend; and changes or modifications of IRAs. Where appropriate within each of these groups, the bills are divided into subgroups in which the proposals have similar or identical major characteristics. With respect to each group of proposals in the pamphlet, the summary of the bills provides a description of present law and a brief description of the major provisions involved in that type of incentive.

I. TAX TREATMENT OF INCOME FROM SAVINGS

A. Present Law

Under present law, interest income received by individuals, in general, is subject to Federal income taxation.

An exception to this rule applies to interest received on State and local government obligations. In this case, however, the income is not included in income because of whom the payee is rather than because the interest is associated with an effort to encourage savings.

In addition, under present law, the first $100 of dividends received by an individual from a domestic corporation is excludable from gross income. In the case of a husband and wife, each spouse is entitled to a separate exclusion of up to $100 for dividends received with respect to stock owned by that spouse. (The tax treatment of dividends is presented in Part III of this pamphlet.)

B. Exclusion of Interest Income Received by Individuals From Thrift Institutions

In general, these bills would allow an individual to exclude from income all or a specified amount of interest received from a deposit in a domestic savings and loan association, a bank, a credit union, or another, similar savings or thrift institution. These exclusions generally would apply to interest received on deposits in passbook savings accounts. The interest rate that may be paid on these accounts presently is limited under the terms of Regulation Q.

The bills that are basically the same with respect to the sources of interest income differ from each other by the amount of interest income which each individual may exclude from income for tax purposes. The amounts range from $100 per individual to an exclusion of all such income.

The bills listed below are grouped according to the amount of interest income that could be excluded.

1. Exclusion of $100

H.R. 1429 (Messrs. Moore, Jones, Bafalis, Rousselot and 35 other cosponsors)
H.R. 5281 (Messrs. Annunzio and Edwards (Okla.))
H.R. 5647 (Mr. Quayle)
H.R. 5825 (Mr. St Germain)
H.R. 4763 (Mr. Evans)

2. Exclusion of $200

H.R. 5100 (Mr. Regula)

3. Exclusion of $250

H.R. 4832 (Messrs. Sawyer and Hyde)
H.R. 5396 (Messrs. Ertel, Guarini and 21 other cosponsors)
H.R. 5524 (Mrs. Byron)

4. Exclusion of $300

H.R. 2127 (Mr. Pritchard)

5. Exclusion of $400

H.R. 842 (Mr. Wolff)
H.R. 5806 (Mr. Beard of Tennessee)

6. Exclusion of $500

H.R. 522 (Mr. Lent)
H.R. 608 (Mr. Nowak and 12 cosponsors)
H.R. 1473 (Mr. Young of Florida)
H.R. 2075 (Mr. Whitehurst and 14 cosponsors)
H.R. 3079 (Mr. Roe)

H.R. 3782 (Messrs. Anderson and Marks)
H.R. 3810 (Messrs. Tauke, Bafalis and 19 other cosponsors)
H.R. 3856 (Mr. Minish)
H.R. 3932 (Mr. Petri and 25 cosponsors)
H.R. 4953 (Mr. Bonker)
H.R. 5193 (Mr. McDade)
H.R. 5198 (Mr. Gaydos)
H.R. 5319 (Mr. Frost)
H.R. 5421 (Mr. Andrews (N.C.))
H.R. 5513 (Mr. Roe)
H.R. 5556 (Mr. Brinkley)
H.R. 5705 (Mr. Hagedorn)
H.R. 5989 (Messrs. Kramer, Rousselot and 3 other cosponsors)
H.R. 6173 (Mr. Rinaldo)

7. **Exclusion of $800**

H.R. 473 (Mrs. Holt and 2 cosponsors)
H.R. 2338 (Mr. Gilman)

8. **Exclusion of $1,000**

H.R. 734 (Mr. Rousselot and 5 cosponsors)
H.R. 785 (Messrs. Weiss, Stark, Lederer and 35 other cosponsors)
H.R. 2269 (Mr. Addabbo)
H.R. 2552 (Messrs. Kemp and Grassley)
H.R. 3191 (Mr. Lujan)
H.R. 4659 (Messrs. Glickman and Foley)
H.R. 4901 (Mr. Abdnor)
H.R. 4931 (Mr. Biaggi)
H.R. 6158 (Mr. Hollenbeck)

9. **Exclusion of $1,250**

H.R. 3231 (Mr. Solomon)

10. **Exclusion of $1,500**

H.R. 5289 (Mr. LaFalce)
H.R. 5353 (Mr. Mottl)

11. **Exclusion of $2,000**

H.R. 735 (Mr. Rousselot and 3 cosponsors)

12. **Exclusion of $2,500**

H.R. 4037 (Mr. Fish)

13. **Exclusion of $4,000**

H.R. 5793 (Mr. Beard of Rhode Island)

14. **Exclusion of $5,000**

H.R. 1355 (Mr. Conte)

15. **Exclude all interest income**

H.R. 4787 (Mr. Paul)
H.R. 5886 (Mr. Crane)

C. TAX DEFERRED INCOME FROM SAVINGS AND INVESTMENTS

1. H.R. 5665, section 201—Mr. Ullman

Under the bill, an individual would be allowed to contribute up to $1,000 a year in cash to a tax-deferred savings account, which would have to be maintained by a financial institution, such as a bank, a building and loan association or a credit union. The funds in the account could be invested in assets other than life insurance contracts.

Generally, the earnings on qualified contributions could build up without being subject to tax each year. When an amount is paid out of the account, that amount would be includible in the individual's gross income to the extent of the proportionate untaxed earnings. An amount paid out of a tax-deferred savings account could be rolled over tax-free to another such account within 60 days of the distribution. However, an individual would only be permitted one rollover a year. The account would not be transferable except in the case of death or divorce, and the account would be required to be terminated within five years after the death of the saver.

Under this provision, each family member could contribute up to $1,000 a year to a tax-deferred savings account as long as a separate account is maintained for that individual family member.

2. H.R. 5779—Messrs. Holland and Martin

The bill would provide an exemption from Federal income taxation for certain investment accounts referred to as rollover accounts. Under the bill, a rollover account is defined as a trust created in the United States for the exclusive benefit of an individual or his beneficiaries. The trustee of the account would be required to be a bank or similar institution, and the trustee would be required to invest the funds in the trust in stock or securities of a domestic corporation, or in interest-bearing deposits in a bank.

The bill would allow an individual to make contributions of cash, or stocks or securities in a domestic corporation to the trust. No gain would be recognized to the individual upon the transfer of appreciated stock or securities to the trust. In addition, at the election of the individual, either the trustee would be given investment discretion, or the individual could retain the right to direct the trustee in the investment and reinvestment of funds in the trust.

All interest, dividends and capital gains realized in the trust would be exempt from taxation until withdrawn. The amount of such income would be recorded by the trustee in an ordinary income fund and a capital gain fund. In addition, the trustee would establish a capital fund which would consist of the amount of cash contributed

to the trust plus the basis in the hands of the individual of any stocks or securities contributed to the trust.

Distributions from the trust to the individual would be treated as being made first from the ordinary income fund, second from the capital gains fund, and third from the capital fund. Such distribution would be treated as having the same character in the hands of the recipient as the character of the fund from which they were deemed distributed. Further distributions of property (stock or securities) would be treated as distributions of property in an amount equal to the basis of the property distributed.

3. Individual housing accounts

H.R. 3791—Mr. Frenzel

The bill provides that an individual would be allowed a deduction for cash amounts deposited in an individual housing account during the taxable year. The amount allowable as a deduction for an individual for any taxable year could not exceed $3,000. The maximum lifetime deduction allowable to an individual would be $15,000. In the case of a husband and wife, the annual deduction also would be limited to $3,000, and the maximum lifetime deduction would be limited to $15,000.

An individual housing account is defined in the bill as a trust created in the United States for the exclusive benefit of an individual or for the exclusive benefit of the individual and his spouse jointly. The trustee of the account must be a bank or similar institution, and no part of the trust fund would be allowed to be invested in life insurance contracts.

The entire interest of an individual or a married couple in the trust would be required to be distributed no later than 120 months after the date on which the first contribution is made to the trust.

Distributions from the trust would be required to be included in the gross income of the distributee for the taxable year of the distribution, unless such amounts were used exclusively in connection with the purchase of a principal residence for the distributee. In addition, an additional income tax equal to 10 percent of the amount of the distribution would in general be imposed on the distributee in the case where a distribution was not used in connection with the purchase of a principal residence for the distributee.

The bill also provides that the basis in any residence acquired with funds withdrawn from an individual housing account would be reduced by an amount equal to the amount of expenditures made in connection with the acquisition from the individual housing account.

The bill also provides various rules relating to excess contributions, prohibited transactions, custodial accounts, and disqualification.

Similar bills

H.R. 810 (Mr. Whitehurst and 11 cosponsors)

H.R. 1842 and ***H.R. 3200*** (Mr. Dornan)

H.R. 2410 (Mr. Quayle, Mr. Duncan, Mr. Martin, Mr. Bafalis and 25 other cosponsors)

H.R. 4527 (Mr. Panetta and 14 cosponsors)

4. Savings tax credit

H.R. 169—Mr. Brown

The bill in general would provide a nonrefundable tax credit to an amount equal to 50 percent of the increase in certain types of savings over certain required levels.

Under the bill, the amount of savings eligible for the credit would be the difference between the taxpayer's eligible net savings and the taxpayer's threshold saving amount. The taxpayer's threshold saving amount is based on his adjusted gross income minus personal exemptions. Only net eligible savings in excess of the threshold saving amount are eligible for the credit.

Net eligible savings are defined as the sum of net saving less ineligible debt. Net savings is defined as increased investments or savings in small businesses, checking and savings accounts, U.S. obligations, domestic stocks and securities, mortgages, investment real estate, retirement plans and life insurance. Ineligible debt is defined in general as the net increase in any debt other than debt for the purchase or repair of any real estate property, for the repair of any property, and for the payment of medical or tuition expenses.

The credit would be recaptured from savings which were not left in eligible assets for 5 years. The recapture provision would not apply in the case of a taxpayer who attained the age of 65.

5. Partial exclusion of incremental interest received from thrift institutions by individuals

H.R. 5989—Mr. Kramer

Under this bill, interest received by an individual on certain savings deposits and withdrawable savings accounts would be excludible only to the extent the amount of qualifying interest received for the taxable year exceeded the amount received for the preceding taxable year. In addition, the amount eligible for exclusion by an individual would be limited to $500. In the case of a husband and wife, each spouse would be entitled to a separate exclusion for interest received on deposits or accounts belonging to that spouse.

In the case of an individual who has attained the age of 65 before the close of the taxable year, the incremental interest requirement would not apply. Thus for such individuals, the first $500 of interest eligible under the bill also would be excluded from gross income.

In general, interest eligible for the exclusion would be amounts received on a time or demand deposit with a commercial bank, mutual savings bank, savings and loan association, building and loan association, or a similar association. However, interest received on a money market certificate, or an account for which the rate of interest is negotiable, would not be eligible for the exclusion.

6. Partial exclusion of interest received by older individuals

H.R. 541—Mr. Lloyd of California

The bill would provide an exclusion from gross income for interest received by an individual who has attained age 62 before the close of the taxable year. The aggregate amount of interest excludable under this provision would be $3,000. In the case of a husband and wife who file a joint return and who have both attained the age of 62 during the

taxable year, the excludable amount would be $6,000. In addition, the exclusion would phase out as the gross income of an eligible individual exceeded $5,500 [1] ($11,000 in the case of a husband and wife who are both eligible and who file a joint return). The amount of interest eligible for the exclusion would be reduced by ½ of the excess of the taxpayer's adjusted gross income over the taxpayer's applicable amount. For example, in the case of a single taxpayer filing an individual return the exclusion would be reduced to zero where the taxpayer's adjusted gross income equaled or exceeded $11,500. In the case of a husband and wife both of whom are eligible under the bill, and who file a joint return, the exclusion would be reduced to zero where the taxpayers' adjusted gross income equaled or exceeded $23,000.

Interest income derived from any source and which (but for this bill) would be includible in gross income is eligible for the exclusion.

The age requirement would be treated as being satisfied with respect to interest derived from jointly owned property in the case of a husband and wife who make a joint return where either spouse has attained the age of 62 before the close of the taxable year.

Similar bills

Other similar bills also would provide exclusion from income for older individuals. The age at which the individual may become eligible for the exclusion is 62 or 65 years of age. The amount of exclusion differs in each bill. The source of the interest income eligible for the exclusion also differs in each bill. These bills are listed below.

H.R. 1355 (Mr. Conte)

H.R. 2493 (Mr. Lehman)

H.R. 5105 (Mr. Treen)

H.R. 5989 (Messrs. Kramer, Rousselot and 3 other cosponsors)

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[1] Amounts received as pensions on annuities under the Social Security Act and the Railroad Retirement Act are excluded from gross income. Treas. Regs. §1.61–11(b).

II. TAX TREATMENT OF DIVIDENDS

A. Dividend Reinvestment Plans

H.R. 5665—Mr. Ullman and H.R. 654—Messrs. Pickle, Archer, Rousselot, Duncan of Tennessee, Holland, Bafalis, Martin and 6 cosponsors

Present law

Under present law, if a shareholder elects to receive a dividend in the form of a corporation's stock rather than in cash, the value of the stock distributed is taxable as a dividend (unless the corporation has neither current nor accumulated earnings and profits) (Code sec. 305(b)(1)). However, the first $100 of dividends received by an individual from domestic corporations is excludable from income. In the case of married individuals, the exclusion is applied separately for dividends received with respect to each spouse.

Description of bills

Under each bill, a domestic corporation would be allowed to establish a plan under which shareholders who choose to receive a dividend in the form of common stock rather than cash or other property may elect to exclude up to $1,500 per year ($3,000 in the case of a joint return) of the stock dividends from income.

To qualify, the stock would have to be newly issued common stock, designated by the corporation to qualify for this purpose. The number of shares to be issued would have to be determined by reference to a value not less than 95 percent of the stock's value on the distribution date. Generally, stock would not qualify where the corporation has repurchased any of its stock within one year before or after the distribution date unless a business purpose not inconsistent with the purposes of this provision was established.

Stock received as a qualifed dividend would have a zero basis, so that when the stock is later sold the full amount of the sales proceeds would be taxable. In general, proceeds from the sale of such stock would be taxed as capital gains. However, where the stock is sold within one year after distribution, any gain would be treated as ordinary income. In addition, where shares of stock of the distributing corporation are sold by the taxpayer any time after the record date for the dividend and before a date one year after the dividend distribution date, the sale would be treated as a sale of the qualified dividend stock. These rules are designed to prevent the immediate resale of stock without the recognition of ordinary income which would have resulted in the case of a taxable dividend.

Under H.R. 5665, shareholders eligible for this special treatement would be individuals other than (1) trusts, (2) estates, and (3) persons holding five percent or more of value or voting power of the distributing corporation.

A regulated investment company would not be eligible to issue qualified stock. Under H.R. 5665, a real estate investment trust, cooperative, subchapter S corporation and personal holding company would also be ineligible.

B. Exclusion of Dividends Received by Individuals

Present law

Under present law, the first $100 of dividends received by an individual from domestic corporation is excluded from gross income. In the case of a husband and wife, each spouse's exclusion is computed with respect to dividends received on stock owned by that spouse.

General Description of bills

The bills generally would increase above $100 the amount of dividends which may be excluded from income. The amount of the exclusion would be increased from $100 to amounts which vary between $150 per individual to $1,500 and to an exclusion from income for all dividends received by an individual from a domestic corporation.

The bills that would exclude from income a greater amount of dividends, or all dividends, received from domestic corporations are listed below.

1. **Exclusion of $150**

   H.R. 5396 **(Mr. Ertel)**
   H.R. 5705 **(Mr. Hagedorn)**

2. **Exclusion of $200**

   H.R. 5101 **(Mr. Regula)**

3. **Exclusion of $500**

   H.R. 4101 **(Mr. Mottl)**

4. **Exclusion of $1,500**

   H.R. 5352 **(Mr. Mottl)**

5. **Exclude all dividend payments from domestic corporations**

   H.R. 444 **(Mr. Hansen)**
   H.R. 5806 **(Mr. Beard of Tennessee)**

III. TAX INCENTIVES FOR INDIVIDUAL RETIREMENT SAVINGS

A. Present Law

An employee generally is entitled to deduct the amount that is contributed to an individual retirement account or individual retirement annuity or is used to purchase retirement bonds (referred to collectively as IRAs). The limitation on the deduction for a taxable year is generally the lesser of 15 percent of compensation for the year or $1,500. The $1,500 contribution limit is increased to $1,750 for a year if (1) the contribution is equally divided between an employee and the spouse of the employee, and (2) the spouse has no compensation for the year. However, no IRA deduction is allowed for a taxable year to an individual who is an active participant, during any part of the taxable year, in a qualified retirement plan, a tax-sheltered annuity maintained by a tax-exempt institution or a governmental plan (whether or not qualified). Also, if an individual is an active participant during any part of a taxable year, no deduction is allowed for retirement savings for the individual's spouse.

Many qualified plans provide for contributions by both the employer and the employee. In many such cases, the employee contributions are mandatory (i.e., required as a condition of employment, a condition of participation in the plan, or a condition of obtaining additional employer-derived benefits). In other cases, employee contributions are voluntary, and the amount, within limits, is left to the discretion of the employee. A plan can provide for both mandatory and voluntary employee contributions. In any case, neither employer nor employee contributions to a qualified retirement plan may discriminate in favor of employees who are officers, shareholders, or highly compensated. Generally, in the case of voluntary employee contributions, within certain limits, there is no discrimination so long as there is an equal opportunity for all employees to make such contributions. The employee is not entitled to a deduction or exclusion for employee contributions to the plan. Income allocable to an employee's contributions to a qualified plan is generally not taxed to the plan or the employee prior to the time the income is distributed or made available to the employee or the employee's beneficiary.

In the case of tax-sheltered annuities (including custodial accounts investing in shares of a regulated investment company) purchased by certain tax-exempt institutions for their employees or purchased by schools for teachers, employees are entitled to an exclusion, within limits, from gross income for amounts contributed on a salary reduction basis.

B. Description of Bills

1. Deduction for retirement savings by individual covered by plan

The following bills, presented in numerical order, have been introduced by members of the House to extend the availability of IRA deductions and to allow a deduction for employee contributions to a qualified plan.

H.R. 628—Mr. Corman

Under the bill, an employee who is covered by a retirement plan and who is not fully vested generally would be allowed a deduction for contributions to the plan or to an IRA within the normal IRA limit, the lesser of $1,500 or 15 percent of compensation. If such an employee later becomes fully vested under the plan, he would be required to include in income an amount attributable to the years he enjoyed double coverage (i.e., coverage under the plan and an IRA). Where contributions were made to an IRA, a distribution from the IRA would be required to adjust for the double coverage.

An employee who is covered by a retirement plan and is fully vested in the plan generally would be allowed a deduction for contributions to the plan or to an IRA to the extent that the plan contribution on his behalf was less than the normal IRA limit.

Certain individuals would be ineligible for the deduction (e.g., officers of corporations, 10-percent shareholders, and 10-percent partners). Where contributions were made to a plan which provides for mandatory employee contributions, the deduction would be limited to $100.

H.R. 962—Mr. Brodhead

This bill is basically the same as H.R. 628, except that an employee would be allowed a deduction only for contributions to an IRA.

H.R. 5480—Mr. Vander Jagt

Under the bill, an employee who is covered by a retirement plan generally would be allowed a deduction for contributions to an IRA in the amount by which the normal IRA deduction limit exceeds the employer contributions made on behalf of the employee to the retirement plan. The normal IRA limit is the lesser of 15 percent of compensation or $1.500 ($1,750 if the employee has a nonworking spouse and shares the IRA contributions equally with the spouse).

H.R. 5665—Mr. Ullman

The bill would increase the normal deduction limit for contributions to an IRA from $1,500 to $2,000. The bill also would repeal the provision under present law which allows an individual to increase the $1,500 to $1,750 in the case of a spousal IRA.

In addition, under the bill, an active participant in a retirement plan could make a deductible contribution of up to $1,000 to that plan or to

an IRA. In the case of mandatory employee contributions to a plan, the deductible amount would be limited to $100. This new deduction for individual retirement savings would not be available to individuals who are self-employed or to individuals who are shareholder-employees of a subchapter S corporation.

H.R. 6049—Mr. Conable

Under the bill, an employee who is covered by a retirement plan generally would be allowed a deduction for contributions to the plan or to an IRA. The maximum deduction limit with respect to such an employee would be the lesser of 15 percent of compensation or $1,000. An individual could make deductible contributions to both a plan and an IRA in a taxable year so long as the aggregate contributions did not exceed the deduction limit. In addition, an individual would be permitted to contribute half of the deductible amount to an IRA for the individual's nonworking spouse.

2. Deduction for retirement savings in new spousal IRA

The bills, presented in numerical order, generally would permit a married individual with little or no compensation from employment (for example, a homemaker) to make deductible contributions to an IRA, based on the compensation of the individual's spouse.

H.R. 1542—Mr. Trible

The bill would set the annual limit on the deduction for an IRA contribution for a married individual at 15 percent of the greater of the compensation of the individual or compensation of the individual's spouse. The deduction could not exceed $1,500. The bill also would repeal the spousal IRA provision of present law.

H.R. 4547—Mr. Gibbons

In the case of a married individual, the bill would set the annual limit on the deduction for an IRA contribution at 15 percent of the greater of the compensation of the individual or one-half of the combined compensation of the individual and the individual's spouse. The deduction could not exceed $1,500. The bill also would repeal the spousal IRA provisions of present law.

3. Tax credit for retirement savings by individual covered by plan

H.R. 5693—Mr. Gibbons

Under the bill, an employee covered by a retirement plan would be permitted to make tax-favored contributions to an IRA and/or to a qualified plan which allows voluntary employee contributions. An employee covered by a plan would be eligible for a tax credit for contributions to the plan or to an IRA. The credit would be 25 percent of the employee's annual contribution, subject to the normal IRA limits, the lesser of 15 percent of compensation or $1,500 ($1,750 in the case of spousal IRA). The credit would not be allowed for mandatory employee contributions to a plan. Employees who are not covered by a plan would continue to be eligible for a deduction for IRA contributions or, as an alternative, could elect the credit.

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