The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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UNIVERSAL IRA BILLS INTRODUCED

January 24, 1997 TO: BOARD OF GOVERNORS No. 5-97 FEDERAL LEGISLATION MEMBERS No. 2-97 PUBLIC INFORMATION COMMITTEE No. 3-97 RE: UNIVERSAL IRA BILLS INTRODUCED ____
The "Savings and Investment Incentive Act of 1995" On January 22, Senate Finance Chairman William Roth (R-DE) and Finance Committee member John Breaux (D-LA) introduced S. 197, the "Savings and Investment Incentive Act of 1995" (also called the Super-IRA Bill), designed to restore the universal availability of fully tax- deductible Individual Retirement Accounts. A companion bill, H.R. 446, was introduced in the House on January 9 by Representatives Bill Thomas (R-CA) and Richard Neal (D-MA). Two kinds of accounts; penalty-free withdrawals. The proposal would permit a choice between tax-deductible contributions to a traditional IRA, or contributions to a new type of IRA, called an IRA Plus Account, under which contributions would be nondeductible, but earnings would not be subject to income or penalty taxes when withdrawn from an account that is at least five years old. The bill contains provisions on converting existing IRAs into IRA Plus Accounts. The 10 percent penalty tax on early withdrawals (generally those made before age 59½ for traditional IRAs or within the five-year period for the new IRA Plus Accounts) would be waived if the funds are used for higher education expenses, first-time home purchases, or during periods of long unemployment. Universal eligibility. Under the proposal, beginning in 2001, tax-deductible IRAs would be available regardless of income. Until then, the present income ceilings on eligibility for fully deductible IRAs applicable to individuals covered by other retirement plans would be increased each year as follows: Individuals Couples Present law $25,000 $40,000 1997 $50,000 $65,000 1998 $75,000 $90,000 1999 $100,000 $115,000 2000 $125,000 $140,000 2001 and after no limit no limit -2- Deductibility not affected by spouses pension coverage. Further, effective immediately, an individuals eligibility for a fully deductible IRA would be determined without regard to whether his or her spouse is covered by another retirement plan. Contribution limit indexed. The $2,000 annual contribution limit would be indexed for inflation. The "Family Tax Relief Act" On January 21, Chairman Roth also introduced S. 2, the "Family Tax Relief Act," which is part of the Republican Senate leadership agenda and therefore to be given priority consideration in this Congress. S. 2 contains various tax cut proposals and includes most of the provisions in the Roth-Breaux Super-IRA Bill. However, S. 2 is different in important respects from the Super-IRA Bill. It would not index for inflation the $2,000 annual IRA contribution limit, would not allow penalty-free withdrawals for first-time home purchases, and would subject combined 401(k) and IRA contributions to the 401(k) contribution limit. This IRA-401(k) coordination provision is opposed by the Institute. We will keep you informed of further legislative developments. Matthew P. Fink President