

MEMO# 9668

February 11, 1998

SENATE FINANCE COMMITTEE VOTES TO INCREASE EDUCATION IRA ANNUAL LIMIT TO \$2,000

[9668] February 11, 1998 TO: PENSION COMMITTEE No. 4-98 PENSION OPERATIONS
ADVISORY COMMITTEE No. 3-98 RE: SENATE FINANCE COMMITTEE VOTES TO INCREASE
EDUCATION IRA ANNUAL LIMIT TO \$2,000

On February 10, the Senate Finance Committee voted to expand the Education IRA program on an 11-8 vote. The Parent and Student Savings Account Plus Act, S. 1133, would expand and modify the Education IRA program by increasing the annual contribution limit from \$500 to \$2,000 for the period 1999 through 2002. For 2003 and later years, the limit would be \$500. The bill also would permit withdrawals to pay for expenses associated with elementary and secondary education expenses. The Clinton Administration remains strongly opposed to any Education IRA program expansion that would permit withdrawals to pay for elementary and secondary education expenses. The bill also includes the following provisions relevant to the Education IRA: (1) contributions to an Education IRA would be permitted after the designated beneficiary reaches age 18 in the case of a "special needs beneficiary", and in the case of such a beneficiary, a deemed distribution of the account balance would not be required when the beneficiary reaches age 30; (2) corporations and other entities (e.g. tax-exempt entities) would be permitted to make contributions to Education IRAs, regardless of the income of the entity for the year; and (3) several technical corrections, as detailed in the attachment. Also, the bill was amended in Committee to clarify that expenses incurred in connection with after-school programs for students in grades K through 12 are intended to be included as a qualified use of an Education IRA distribution. Russell G. Galer Associate Counsel Attachment