MEMO# 11146

July 30, 1999

REPRESENTATIVE POMEROY INTRODUCES TAX CREDIT BILL FOR ELECTIVE DEFERRALS AND IRA CONTRIBUTIONS

1 A version of this bill was introduced last year by Representative Pomeroy. See Institute Memorandum to Pension Committee No. 36-98, dated June 12, 1998. [11146] July 30, 1999 TO: PENSION COMMITTEE No. 48-99 RE: REPRESENTATIVE POMEROY INTRODUCES TAX CREDIT BILL FOR ELECTIVE DEFERRALS AND IRA CONTRIBUTIONS

Representative Earl Pomeroy (D-ND) has introduced H.R. 2553, the “Family Investment Retirement Savings Tax (FIRST) Credit Act of 1999.”1 The bill would permit a tax credit of up to 50 percent of the amount allowed as a deduction for contributions to IRAs or defined contribution plans. The maximum credit allowed for a given year would be $1,000. The credit would be in addition to, rather than in lieu of, the deduction available under present law. Taxpayers filing jointly with adjusted gross income (AGI) of up to $51,000 and single taxpayers with AGI of up to $31,000 would be eligible for the credit. The amount of credit would phase out for taxpayers filing a joint return with AGI of $51,000 to $61,000 and for single taxpayers with AGI of $31,000 to $41,000. To the extent that an individual participates in this program, distributions from IRAs or plans to which contributions were made would be subject to a substantial early withdrawal penalty. Specifically, the bill’s “anti-churning rule” would impose a section 72(t) penalty of 60 percent (rather than 10 percent) on distributions if a participating individual withdraws amounts during the first five years of program participation. Amounts distributed upon hardship, however, would not be subject to the penalty. Thomas T. Kim Assistant Counsel Attachment