

MEMO# 13584

June 5, 2001

CONGRESS CLEARS TAX RELIEF PACKAGE FOR PRESIDENT'S SIGNATURE; INCLUDES RETIREMENT AND EDUCATION SAVINGS PROVISIONS

[13584] June 5, 2001 TO: BOARD OF GOVERNORS No. 27-01 FEDERAL LEGISLATION MEMBERS No. 9-01 PRIMARY CONTACTS - MEMBER COMPLEX No. 39-01 PUBLIC INFORMATION COMMITTEE No. 17-01 RE: CONGRESS CLEARS TAX RELIEF PACKAGE FOR PRESIDENT'S SIGNATURE; INCLUDES RETIREMENT AND EDUCATION SAVINGS PROVISIONS

The House of Representatives and the Senate have approved a tax reduction package totaling \$1.35 trillion over 10 years. The conference report for the "Economic Growth and Tax Relief Reconciliation Act of 2001" (H.R. 1836) was approved by the House on May 26 by a vote of 240 to 154. The Senate approved the legislation later that day by a vote of 58 to 33. The President is expected to sign the legislation into law after Congress returns from the Memorial Day recess. Along with the provisions to enhance retirement and education savings, the legislation includes a reduction in marginal income tax rates, marriage penalty relief, repeal of the estate tax, and an increase in the child tax credit. H.R. 1836 makes changes as follows: Retirement Savings • increases the annual limit on IRA contributions in stages from \$2,000 to \$5,000 between 2002 and 20081; • increases the annual limit on 401(k), 403(b), and 457 plan contributions in stages to \$15,000 between 2002 and 20061; • permits persons age 50 and older to make additional "catch-up" contributions to their IRAs and employer-sponsored retirement plans1; • enhances the portability of retirement benefits by permitting rollovers of IRAs to employer- sponsored plans and among the various types of employer-sponsored plans; • creates a tax credit for small employer pension plan startup costs; and • creates a nonrefundable tax credit to subsidize contributions of low- and middle-income persons to IRAs and employer-sponsored retirement plans. The maximum credit amount will be 50 percent of up to \$2,000 in contributions for couples with income up to \$30,000 1 See Attachment for the details of the phasing in. 2(\$15,000 for individuals) and will be completely phased out for couples with income over \$50,000 (\$25,000 for individuals). Education Savings The legislation also increases the annual limit on contributions to education IRAs from \$500 to \$2,000 beginning in 2002 and expands them to cover elementary and secondary school expenses. H.R. 1836 also makes distributions from Section 529 State tuition programs that are used for qualified higher education expenses tax-free beginning in 2002, allows private institutions to participate in the program, and permits one rollover from one qualified program to another within any 12-month period. Matthew P. Fink President Attachment

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