

105TH CONGRESS
1ST SESSION

H. R. 3024

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 12, 1997

Mr. WEXLER introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Restore American
5 Dream Act of 1997”.

6 **SEC. 2. HOMEOWNERSHIP PLANS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-
8 ter I of the Internal Revenue Code of 1986 (relating to
9 additional itemized deductions for individuals) is amend-
10 ed—

1 (1) by redesignating section 222 as section 223;

2 and

3 (2) by inserting after section 221 the following

4 new section:

5 **“SEC. 222. HOMEOWNERSHIP PLANS.**

6 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
7 individual, there shall be allowed as a deduction the
8 amounts paid in cash for the taxable year by or on behalf
9 of such individual to a homeownership plan established for
10 the benefit of the individual.

11 “(b) LIMITATIONS.—

12 “(1) MAXIMUM DEDUCTION.—The deduction al-
13 lowed by subsection (a) for the taxable year shall not
14 exceed the limitation of section 415(c) (relating to
15 limitation for defined contribution plans).

16 “(2) DEDUCTION NOT TO EXCEED COMPENSA-
17 TION.—The deduction allowed under subsection (a)
18 for the taxable year shall not exceed an amount
19 equal to the compensation includible in the individ-
20 ual’s gross income for such taxable year.

21 “(3) PERIOD FOR DEDUCTIONS.—No deduction
22 shall be allowed under subsection (a) for any con-
23 tribution made to a homeownership plan after the
24 contribution period.

1 “(4) NUMBER OF PLANS.—If an individual is
2 the beneficiary of more than 1 homeownership plan
3 during any taxable year, no deduction shall be al-
4 lowed under subsection (a) for any amount paid for
5 such taxable year to any homeownership plan estab-
6 lished for the benefit of such individual.

7 “(5) MARRIED INDIVIDUALS.—For purposes of
8 this section—

9 “(A) TREATMENT.—Married individuals
10 filing either a joint return or separate returns
11 shall be considered to be 1 individual.

12 “(B) ESTABLISHMENT OF PLAN.—A home-
13 ownership plan established for the benefit of
14 any married individual shall be deemed to be
15 established for the exclusive benefit of the indi-
16 vidual and such individual’s spouse.

17 “(C) MERGER OF PLANS.—In the event
18 that 2 individuals for each of whose benefit a
19 homeownership plan has been established
20 should marry, the 2 plans shall be deemed to be
21 merged into 1 plan. Thereafter, subject to para-
22 graph (1), each individual may make contribu-
23 tions during the remainder of the contribution
24 period applicable to that individual.

1 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
2 poses of this section—

3 “(1) HOMEOWNERSHIP PLAN.—The term
4 ‘homeownership plan’ means a trust created or orga-
5 nized in the United States exclusively for the pur-
6 pose of paying qualified principal residence acquisi-
7 tion expenses of the account holder, but only if such
8 account holder meets the ownership limitations spec-
9 ified in paragraph (3) and only if the written gov-
10 erning instrument creating the trust meets the fol-
11 lowing requirements:

12 “(A) No contribution will be accepted un-
13 less it is in cash.

14 “(B) The trustee is a bank (as defined in
15 section 408(n)) or another person who dem-
16 onstrates to the satisfaction of the Secretary
17 that the manner in which the person will ad-
18 minister the trust will be consistent with the re-
19 quirements of this section.

20 “(C) No part of the trust assets will be in-
21 vested in life insurance contracts.

22 “(D) The assets of the trust shall be in-
23 vested in accordance with the direction of the
24 account holder.

1 “(E) The assets of the trust will not be
2 commingled with other property except in a
3 common trust fund or common investment
4 fund.

5 “(F) The interest of an individual in the
6 balance in his account is nonforfeitable.

7 “(G) The entire interest of an individual
8 for whose benefit the trust is maintained will be
9 distributed to such individual at the end of the
10 contribution period.

11 “(2) QUALIFIED PRINCIPAL RESIDENCE ACQUI-
12 SITION EXPENSES.—The term ‘qualified principal
13 residence acquisition expense’ means an expense in-
14 curred by the taxpayer with respect to acquiring a
15 principal residence, including expenses for a down-
16 payment, interest, points, homeowners and mortgage
17 insurance, other closing costs, and other related
18 items.

19 “(3) OWNERSHIP LIMITATIONS.—The account
20 holder shall be an individual who, after attaining the
21 age of 19 (or in the case of a student has not at-
22 tained the age of 24), has never had a present own-
23 ership interest in a principal residence.

1 “(4) PRINCIPAL RESIDENCE.—The term ‘prin-
2 cipal residence’ has the same meaning as when used
3 in section 121.

4 “(5) CONTRIBUTION PERIOD.—

5 “(A) IN GENERAL.—The term ‘contribu-
6 tion period’ means the 9-year period beginning
7 on the date on which the homeownership plan
8 is established.

9 “(B) AFTER DEATH OR DIVORCE.—In the
10 case of plan treated as a homeownership plan
11 under paragraph (4) or (5) of subsection (d),
12 the contribution period shall be the remaining
13 portion of the 9-year period described in sub-
14 paragraph (A), determined by taking into ac-
15 count only the employment and enrollment of
16 the account holder. In no event may the con-
17 tribution period exceed 14 years.

18 “(6) TIME WHEN CONTRIBUTIONS DEEMED
19 MADE.—A taxpayer shall be deemed to have made a
20 contribution to a homeownership plan on the last
21 day of the preceding taxable year if the contribution
22 is made on account of such taxable year and is made
23 not later than the time prescribed by law for filing
24 the return for such taxable year (not including ex-
25 tensions thereof).

1 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

2 “(1) AMOUNTS USED FOR QUALIFIED PRIN-
3 CIPAL RESIDENCE ACQUISITION EXPENSES.—Any
4 amount paid or distributed out of a homeownership
5 plan which is used exclusively to pay qualified prin-
6 cipal residence acquisition expenses of the account
7 holder shall not be includible in gross income.

8 “(2) INCLUSION OF AMOUNTS NOT USED FOR
9 QUALIFIED PRINCIPAL RESIDENCE ACQUISITION EX-
10 PENSES.—Any amount paid or distributed out of a
11 homeownership plan which is not used exclusively to
12 pay the qualified principal residence acquisition ex-
13 penses of the account holder shall be included in the
14 gross income of such holder.

15 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
16 FORE DUE DATE OF RETURN.—Paragraph (2) shall
17 not apply to the distribution of any contribution
18 made during a taxable year to a homeownership plan
19 to the extent that such contribution exceeds the
20 amount allowable as a deduction under subsection
21 (a) if—

22 “(A) such distribution is received on or be-
23 fore the day prescribed by law (including exten-
24 sions of time) for filing such individual’s return
25 for such taxable year,

1 “(B) such distribution is accompanied by
2 the amount of net income attributable to such
3 excess contribution.

4 Any net income described in subparagraph (B) shall
5 be included in the gross income of the individual for
6 the taxable year in which such excess contribution
7 was made.

8 “(4) TRANSFER OF PLAN INCIDENT TO DI-
9 VORCE.—The transfer to an individual’s spouse or
10 former spouse under a divorce or separation instru-
11 ment described in subparagraph (A) of section
12 71(b)(2) shall not be considered a taxable transfer
13 made by such individual notwithstanding any other
14 provision of this subtitle, and such interest at the
15 time of the transfer shall be treated as a home-
16 ownership plan of such spouse with respect to which
17 such spouse is the account holder. For purposes of
18 subsection (c)(1)(G), the spouse shall take into ac-
19 count the period such plan was held by the individ-
20 ual transferring the interest.

21 “(5) TRANSFER OF PLAN INCIDENT TO
22 DEATH.—The transfer of a decedent’s interest in a
23 homeownership plan to such decedent’s spouse shall
24 not be considered a taxable transfer made by such
25 decedent notwithstanding any other provision of this

1 subtitle, and such interest at the time of the transfer
2 shall be treated as a homeownership plan of the sur-
3 viving spouse with respect to which such spouse is
4 the account holder. For purposes of subsection
5 (e)(1)(G), the surviving spouse shall take into ac-
6 count the period such plan was held by the decedent
7 transferring the interest.

8 “(e) TAX TREATMENT OF PLANS.—

9 “(1) EXEMPTION FROM TAX.—A homeowner-
10 ship plan shall be exempt from taxation under this
11 subtitle unless such plan has ceased to be a home-
12 ownership plan. Notwithstanding the preceding sen-
13 tence, any such plan shall be subject to the taxes im-
14 posed by section 511 (relating to imposition of tax
15 on unrelated business income of charitable, etc. or-
16 ganizations).

17 “(2) LOSS OF EXEMPTION OF PLAN WHERE IN-
18 DIVIDUAL ENGAGES IN PROHIBITED TRANS-
19 ACTIONS.—

20 “(A) IN GENERAL.—If, during any taxable
21 year of the individual for whose benefit the
22 homeownership plan is established, the individ-
23 ual engages in any transaction prohibited by
24 section 4975 with respect to the plan, the plan
25 shall cease to be a homeownership plan as of

1 the first day of such taxable year. For purposes
2 of this subparagraph, the individual for whose
3 benefit any plan was established is treated as
4 the creator of the plan.

5 “(B) PLAN TREATED AS DISTRIBUTING
6 ALL ITS ASSETS.—In any case in which any
7 plan ceases to be a homeownership plan by rea-
8 son of subparagraph (A), on the first day of
9 any taxable year, subsection (d)(1) shall be ap-
10 plied as if there were a distribution on such
11 first day in an amount equal to the fair market
12 value (on such first day) of all assets in the
13 plan (on such first day).

14 “(3) EFFECT OF PLEDGING PLAN AS SECUR-
15 RITY.—If, during any taxable year, an individual for
16 whose benefit a homeownership plan is established
17 uses the plan or any portion thereof as security for
18 a loan, the portion so used shall be treated as dis-
19 tributed to such individual.

20 “(4) EFFECT OF ACQUISITION OF PRINCIPAL
21 RESIDENCE.—

22 “(A) IN GENERAL.—In the event that the
23 individual for whose benefit a homeownership
24 plan is established acquires a principal resi-
25 dence in any taxable year, such plan shall cease

1 to be a homeownership plan and all assets in
2 the plan shall be treated as distributed to such
3 individual on the first day of such taxable year.

4 “(B) SPECIAL RULES UPON MARRIAGE.—
5 For purposes of subparagraph (A), an individ-
6 ual for whose benefit a homeownership plan is
7 established shall not be treated as having ac-
8 quired a principal residence if, after the estab-
9 lishment of such plan, such individual—

10 “(i) marries an individual who owns a
11 principal residence, but

12 “(ii) does not obtain an ownership in-
13 terest in such residence.

14 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
15 CLUDED IN GROSS INCOME.—

16 “(1) DISTRIBUTION NOT USED FOR PURCHASE
17 OF PRINCIPAL RESIDENCE.—The tax imposed by
18 this chapter on the account holder for any taxable
19 year in which there is a payment or distribution
20 from a homeownership plan of such holder which is
21 includible in gross income under subsection (d)(2)
22 shall be increased by 10 percent of the amount
23 which is so includible.

24 “(2) DISABILITY OR DEATH CASES.—Paragraph
25 (1) shall not apply if the distribution is made after

1 the individual for whose benefit the homeownership
2 plan is established becomes disabled within the
3 meaning of section 72(m)(7) or dies.

4 “(g) CUSTODIAL ACCOUNTS.—For purposes of this
5 section, a custodial account shall be treated as a trust if
6 the assets of such account are held by a bank (as defined
7 in section 408(n)) or another person who demonstrates,
8 to the satisfaction of the Secretary, that the manner in
9 which he will administer the account will be consistent
10 with the requirements of this section, and if the custodial
11 account would, except for the fact that it is not a trust,
12 constitute a homeownership plan described in subsection
13 (c). For purposes of this title, in the case of a custodial
14 account treated as a trust by reason of the preceding sen-
15 tence, the custodian of such account shall be treated as
16 the trustee thereof.

17 “(h) REPORTS.—The trustee of a homeownership
18 plan shall make such reports regarding such plan to the
19 Secretary and to the individual for whose benefit the plan
20 is maintained with respect to contributions, distributions,
21 and such other matters as the Secretary may require
22 under regulations. The reports required by this subsection
23 shall be filed at such time and in such manner and fur-
24 nished to such individuals at such time and in such man-
25 ner as may be required by those regulations.

1 “(i) PLANS ESTABLISHED BY EMPLOYERS.—A trust
2 created or organized in the United States by an employer
3 for the exclusive benefit of the employees of the employer
4 shall be treated as a homeownership plan, but only if the
5 written governing instrument creating the plan meets the
6 following requirements:

7 “(1) GENERAL REQUIREMENTS FOR HOME-
8 OWNERSHIP PLANS.—The plan satisfies the require-
9 ments of subparagraphs (A) through (G) of sub-
10 section (c)(1).

11 “(2) SEPARATE ACCOUNTING.—There is a sepa-
12 rate accounting for the interest of each employee.
13 The assets of the trust may be held in a common
14 fund for the account of all employees who have an
15 interest in the trust.

16 “(3) ADDITIONAL REQUIREMENTS.—The plan
17 satisfies requirements, established in regulations is-
18 sued by the Secretary, similar to the requirements
19 set forth in paragraphs (2) through (8) of section
20 408(k) (other than paragraph (2)(B)).”

21 (b) ALLOWANCE OF DEDUCTION IN ARRIVING AT AD-
22 JUSTED GROSS INCOME.—Paragraph (7) of section 62(a)
23 of such Code (relating to retirement savings) is amend-
24 ed—

1 (1) by inserting “OR HOUSING” after “RETIRE-
2 MENT” in the heading of such paragraph; and

3 (2) by inserting before the period at the end the
4 following: “and the deduction allowed by section 222
5 (relating to deduction of certain payments to home-
6 ownership plans)”.

7 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
8 of such Code (relating to tax on excess contributions to
9 individual retirement accounts, medical savings accounts,
10 certain section 403(b) contracts, and certain individual re-
11 tirement annuities) is amended—

12 (1) by inserting “**HOMEOWNERSHIP PLANS,**”
13 after “**ACCOUNTS**”, the second place it appears in
14 the heading of such section;

15 (2) by redesignating paragraphs (3) and (4) of
16 subsection (a) as paragraphs (4) and (5) of such
17 subsection, respectively, and by inserting after para-
18 graph (2) the following:

19 “(3) a homeownership plan (within the meaning
20 of section 222(c)),”;

21 (3) by striking “or” at the end of paragraph
22 (1) of subsection (a); and

23 (4) by adding at the end the following new sub-
24 section:

1 “(g) EXCESS CONTRIBUTIONS TO HOMEOWNERSHIP
2 PLANS.—For purposes of this section, in the case of a
3 homeownership plan (within the meaning of section
4 222((e)(1)), the term ‘excess contributions’ means the
5 amount by which the amount contributed for the taxable
6 year to the plan exceeds the amount allowable as a deduc-
7 tion under section 222 for such taxable year.”

8 (d) TAX ON PROHIBITED TRANSACTIONS.—Section
9 4975 of such Code (relating to tax on prohibited trans-
10 actions) is amended—

11 (1) by adding at the end of subsection (c) the
12 following new paragraph:

13 “(6) SPECIAL RULE FOR HOMEOWNERSHIP
14 PLANS.—An individual for whose benefit a home-
15 ownership plan is established shall be exempt from
16 the tax imposed by this section with respect to any
17 transaction concerning such plan (which would oth-
18 erwise be taxable under this section) if, with respect
19 to such transaction, the plan ceases to be a home-
20 ownership plan by reason of the application of sec-
21 tion 222(e)(2)(A) or if section 222(e)(3) applies to
22 such plan.”; and

23 (2) by striking “or” at the end of subparagraph
24 (E), by redesignating subparagraph (F) as subpara-

1 graph (G) and inserting after subparagraph (E) the
2 following new subparagraph:

3 “(F) a homeownership plan described in
4 section 222(c), or”.

5 (e) FAILURE TO PROVIDE REPORTS ON HOME-
6 OWNERSHIP PLANS.—Paragraph (2) of section 6693(a) of
7 such Code (relating to failure to provide reports on certain
8 tax-favored accounts or annuities; penalties relating to
9 designated nondeductible contributions) is amended by
10 striking “and” at the end of subparagraph (C), by striking
11 the period at the end of subparagraph (D) and inserting
12 “, and”, and by inserting after subparagraph (D) to fol-
13 lowing new subparagraph:

14 “(E) section 222(i) (relating to home-
15 ownership plans).”

16 (f) CLERICAL AMENDMENTS.—

17 (1) The table of sections for part VII of sub-
18 chapter B of chapter 1 of such Code is amended by
19 striking the item relating to section 222 and insert-
20 ing the following:

“Sec. 222. Homeownership plans.
“Sec. 223. Cross Reference.”

21 (2) The table of sections for chapter 43 of such
22 Code is amended by striking the item relating to sec-
23 tion 4973 and inserting the following:

“Sec. 4973. Tax on excess contributions to individual retirement accounts, homeownership plans, certain 403(b) contracts, and certain individual retirement annuities.”

1 (g) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 1997.

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