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114TH CONGRESS
1ST SESSION

S. 195

To amend the Internal Revenue Code of 1986 to improve and expand Coverdell education savings accounts.

IN THE SENATE OF THE UNITED STATES

JANUARY 20, 2015

Mr. KIRK (for himself, Mr. VITTER, and Mr. TOOMEY) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1986 to improve and expand Coverdell education savings accounts.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''401(Kids) Education Savings Account Act of 2015''.

SEC. 2. ELIMINATION OF INCOME-BASED REDUCTION IN PERMITTED CONTRIBUTIONS TO COVERDELL EDUCATION SAVINGS ACCOUNTS.

Paragraph (1) of section 530(c) of the Internal Revenue Code of 1986 is amended by striking ''to an account

under this section'' and inserting ''to an account under this section in a taxable year beginning before January 1, 2016,''.

SEC. 3. INCREASE IN ANNUAL CONTRIBUTION LIMITATION FOR COVERDELL EDUCATION SAVINGS ACCOUNTS.

(a) IN GENERAL.—Clause (iii) of section 530(b)(1)(A) of the Internal Revenue Code of 1986 is amended by striking ''$2,000'' and inserting ''the dollar amount in effect under section 2503(b) (relating to exclusion from gifts) for the taxable year''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions made in taxable years beginning after December 31, 2015.

SEC. 4. ALLOWANCE OF HOME SCHOOL EXPENSES AS QUALIFIED EDUCATION EXPENSES FOR PURPOSES OF A COVERDELL EDUCATION SAVINGS ACCOUNT.

(a) IN GENERAL.—Paragraph (3) of section 530(b) of the Internal Revenue Code of 1986 is amended by adding at the end the following new subparagraph:

''(C) PRIVATE SCHOOL.—For purposes of this section, the term 'private school' includes any home school that meets the requirements of State law applicable to such home schools,

whether or not such school is deemed a private school for purposes of State law.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2015.

SEC. 5. QUALIFIED DISTRIBUTIONS FROM A COVERDELL EDUCATION SAVINGS ACCOUNT FOR FIRST HOME PURCHASES.

(a) IN GENERAL.—Paragraph (1) of section 530(b) of the Internal Revenue Code of 1986 is amended by striking ''qualified education expenses'' and inserting ''qualified expenses''.

(b) QUALIFIED EXPENSES.—Subsection (b) of section 530 of the Internal Revenue Code of 1986, as amended by this Act, is amended by redesignating paragraphs (2), (3), and (4) as paragraphs (4), (5), and (6), respectively, and by inserting after paragraph (1) the following new paragraphs:

''(2) QUALIFIED EXPENSES.—The term 'qualified expenses' means—

''(A) qualified first-time homebuyer expenses, and

''(B) qualified education expenses.

''(3) QUALIFIED FIRST-TIME HOMEBUYER EXPENSES.—

"(A) IN GENERAL.—The term 'qualified first-time homebuyer expenses' means, in the case of a designated beneficiary who is a first-time homebuyer, the qualified acquisition costs with respect to a principal residence of such beneficiary.

"(B) DEFINITIONS.—The terms 'first-time homebuyer', 'qualified acquisition costs', and 'principal residence' have the same meaning as when used in section 72(t)(8).".

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (4)(A)(ii) of section 530(b) of the Internal Revenue Code of 1986, as redesignated by subsection (b), is amended by striking "as defined in paragraph (3)" and inserting "as defined in paragraph (5)".

(2) Subparagraphs (A), (B), and (D) of section 530(d)(1) of such Code are each amended by striking "qualified education expenses" each place it appears and inserting "qualified expenses".

(3) The heading of paragraph (2) of section 530(d) of such Code is amended by striking "EDUCATION EXPENSES" and inserting "EXPENSES".

(4) The heading of paragraph (4) of section 530(d) of such Code is amended by striking ''EDUCATIONAL EXPENSES'' and inserting ''EXPENSES''.

(5) Subclause (I) of section 529(c)(3)(B)(vi) of such Code is amended by striking ''to which clauses (i) and (ii) and section 530(d)(2)(A) apply'' and inserting ''for qualified higher education expenses to which clauses (i) and (ii) apply and for qualified education expenses to which section 530(d)(2)(A) applies''.

(6) Clause (vi) of section 529(c)(3)(B) of such Code is amended by striking ''and section 530(d)(2)(A).'' and inserting ''and the amount of the exclusion with respect to qualified education expenses under section 530(d)(2)(A).''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made in taxable years beginning after December 31, 2015.

SEC. 6. QUALIFIED ROLLOVER CONTRIBUTIONS FROM COVERDELL EDUCATION SAVINGS ACCOUNTS TO ROTH IRAS.

(a) IN GENERAL.—Paragraph (5) of section 530(d) of the Internal Revenue Code of 1986 is amended by inserting '', or into a Roth IRA of the beneficiary'' after ''as of such date''.

(b) CONFORMING AMENDMENT; TECHNICAL CORRECTION.—Paragraph (1) of section 408A(e) of the Internal Revenue Code of 1986 is amended to read as follows:

"(1) IN GENERAL.—The term 'qualified rollover contribution' means a rollover contribution to a Roth IRA from another such account, from an eligible retirement plan (as defined in section 402(c)(8)(B)), or from a Coverdell education savings account (as defined in section 530(b)(1)), but only if—

"(A) such rollover contribution meets the requirements of section 408(d)(3),

"(B) in the case of a rollover contribution from an eligible retirement plan described in clause (iii), (iv), (v), or (vi) of section 402(c)(8)(B), such contribution meets the requirements of section 402(c), 403(b)(8), or 457(e)(16), whichever is applicable, and

"(C) in the case of a rollover contribution from a Coverdell education savings account, such contribution meets the requirements of section 530(d)(5).

For purposes of section 408(d)(3)(B), there shall be disregarded any qualified rollover contribution from an individual retirement plan (other than a Roth IRA) to a Roth IRA.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to rollover contributions made in taxable years beginning after December 31, 2015.

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