

**4. Investments in collectibles by an individual retirement account or individually-directed account under a qualified plan (sec. 305(b) of the bill and sec. 408 of the Code)**

***Present Law***

Under present law, broad discretion generally is allowed with respect to investments by qualified plans and IRAs (individual retirement accounts) where self-dealing is not involved.<sup>1</sup> The Federal prudent man and diversification standards of the Employee Retirement Income Security Act of 1974 (ERISA) do not apply to IRAs or to individually-directed accounts of employees under qualified plans.

Under present law, only a bank, insurance company, or other qualifying financial institution can act as an IRA trustee or custodian. However, the owner of an IRA can self-direct the investment of assets in the account.

***Reasons for Change***

In recent years there has been increasing interest in investing retirement savings in collectibles (coins, antiques, art, stamp collections, etc.) under IRAs and individually-directed accounts in qualified plans. The committee is concerned that collectibles divert retirement savings from thrift institutions and other traditional investment media and that investments in collectibles do not contribute to productive capital formation.

***Explanation of Provision***

Under the bill, an amount in an IRA or in an individually-directed account in a qualified plan which is used to acquire a collectible would be treated as if distributed in the taxable year of the acquisition. The usual income tax rules for distributions from an IRA or from a qualified plan apply.

A "collectible" is defined in the bill as any work of art, rug, antique, metal, gem, stamp, coin, alcoholic beverage, or any other item of tangible personal property specified by the Secretary.

Although the bill changes the tax treatment of the acquisition of collectibles under individually-directed accounts, it does not modify the tax-qualification standards of the Code for pension, profit-sharing, or stock bonus plans or the nontax rules of ERISA. For example, the tax qualification of a pension plan would not be adversely affected merely because an amount was treated as distributed to a participant under this provision at a time when the plan is not permitted to make a distribution to the participant.

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<sup>1</sup> Special rules apply to investments by qualified plans in employer real estate. Also, investments by pension plans in employer securities are subject to a special limitation.

The committee expects that Treasury regulations will provide for appropriate adjustments that will avoid double taxation of benefits under a plan where the collectible is not actually distributed.

***Effective Date***

The provision is effective for property acquired after December 31, 1981, in taxable years ending after that date.

***Revenue Effect***

This provision will have a negligible effect upon budget receipts.