

H. Savings Incentives Provisions

40. Self-employed retirement savings (Keogh plans)

House bill.—The deduction limit for employer contributions to a defined contribution Keogh plan, to a defined contribution plan maintained by a subchapter S corporation, or to a simplified employee pension (SEP) is increased from \$7,500 to \$15,000. The 15-percent limit on contributions is not changed. To provide a similar increase in the level of benefits permitted under a defined benefit Keogh or subchapter S corporation plan, the compensation taken into account in determining permitted annual benefit accruals is increased from \$50,000 to \$100,000.

The bill also increases the amount of compensation which may be taken into account to determine contributions to a Keogh plan, to a subchapter S plan, or to a SEP. Under the bill, the includible compensation limit is increased from \$100,000 to \$200,000. However, if annual compensation in excess of \$100,000 is taken into account, the rate of employer contributions for a plan participant who is a common-law employee cannot be less than the equivalent of 7½ percent of that participant's compensation.

The House bill also extends to all partners the present-law rule under which a loan from a Keogh plan to an owner-employee or his use of an interest in the plan as security for a loan is treated as a distribution.

In addition, the House bill permits (1) the penalty-free correction of an excess contribution to a Keogh plan if the excess is withdrawn before the return filing due date and (2) early withdrawals from a terminated Keogh plan by an owner-employee without regard to the 5-year ban on Keogh plan contributions for the owner-employee.

Senate amendment.—The Senate amendment generally follows the House bill except that it contains no provision relating to excess contributions to Keogh plans or distributions made on account of the termination of a Keogh plan.

Conference agreement.—The conference agreement follows the House bill.

41. Individual retirement accounts

House bill.—In the case of an individual who is not an active participant in an employer-sponsored plan, the annual contribution limit is raised from the lesser of \$1,500 or 15 percent of compensation to the lesser of \$2,000 or 100 percent of compensation. The limit for a spousal IRA is increased from \$1,750 to \$2,250, and the present-law requirement that contributions under a spousal IRA be equally divided between the spouses is deleted.

In the case of an employee who is an active participant in a plan, a deduction is allowed for contributions to an IRA or for voluntary contributions to the plan. The voluntary contributions and earnings thereon under a plan are subject to IRA-type rules, except that (1) distributions starting at age 70½ are not mandated and (2) rollovers may be made to an IRA with regard to the present law rule limiting rollovers to one per year.

Under the House bill, benefits under a qualified plan (including deductible employee contributions and earnings thereon) are taxed only when paid to the employee or a beneficiary and are not taxed if merely made available. Of course, as under present law, if bene-

fits are paid with respect to an employee to a creditor of the employee, a child of the employee, etc., the benefits paid would be treated as if paid to the employee.

Under present law, individuals generally may self-direct IRA investments or investments under an account in a qualified plan. Under the House bill, amounts invested in collectibles (antiques, art, gems, stamps, etc.) under an IRA or a self-directed account in a qualified plan are treated as distributions for income tax purposes.

Under the House bill, the proceeds of a redeemed U.S. retirement bond which is distributed under a qualified bond purchase plan may be rolled over, tax-free, to an IRA. U.S. retirement bonds purchased for an employee may be redeemed only after the employee attains age 59½, dies or becomes disabled. Also, the bill clarifies the treatment of IRA retirement bonds acquired in a tax-free rollover.

Senate amendment.—The Senate amendment is generally the same as the House bill, except that (1) active plan participants are allowed a deduction for contributions to an IRA or for qualified voluntary contributions to a plan limited annually to the lesser of \$1,500 (\$1,625 for a spousal IRA) or 100 percent of compensation for the year, and (2) a surviving or divorced spouse may deduct at least \$1,125 annually for life for contributions to a spousal IRA established by the individual's former spouse at least 5 years before the death or divorce.

In addition, the Senate amendment does not include provisions relating to investments in collectibles under IRAs or self-directed accounts in qualified plans or to rollovers of the redemption proceeds of U.S. retirement bonds. Also, voluntary contributions and earnings thereon are taxed only if paid, but other plan benefits are taxed if paid or made available.

The Senate amendment requires that Treasury provide the Congress (before June 30, 1982) a study of the tax incentives for individual retirement savings.

Conference agreement.—The conference agreement follows the House bill, except that a divorced spouse is allowed a deduction for contributions to a spousal IRA established by the individual's former spouse at least 5 years before the divorce if the former spouse contributed to the IRA under the spousal IRA rules for at least three of the five years preceding the divorce. If these requirements are met, the limit on the divorced spouse's IRA contributions for a year is not less than the lesser of (1) \$1,125, or (2) the sum of the divorced spouse's compensation and alimony includible in gross income.

42. Partial dividend and interest exclusion

House bill.—Under present law, individuals may exclude from income up to \$200 (\$400 on a joint return) of dividends and interest earned from most domestic sources in 1981 and 1982. After 1982, only the dividend exclusion, which applied before 1981, will be available. This exclusion was limited to \$100 of dividends per taxpayer.

The House bill repeals the \$200/\$400 interest and dividend exclusion after 1981 and reinstates the \$100 per taxpayer dividend exclusion of prior law for 1982 and subsequent years. Effective in 1985, the bill provides for a 15-percent net interest exclusion on up to \$3,000 of net interest (\$6,000 on a joint return). Interest described