News from Senator

BOB DOLE

(R - Kansas) SH 141 Hart Building, Washington, D.C. 20510

FOR IMMEDIATE RELEASE:
THURSDAY, JUNE 9, 1983

CONTACT: WALT RIKER
SCOTT RICHARDSON 202/224-6521

DOLE CO-SPONSORS "HOUSING IRA" LEGISLATION

WASHINGTON -- Senate Finance Committee Chairman Bob Dole (R.-Kan.) late Wednesday night co-sponsored legislation to encourage and facilitate home ownership. The Housing Opportunity and Mortgage Equity Act of 1983, introduced by Senator Malcolm Wallop (R.-Wyoming), would provide for "housing IRAs" -- home savings accounts similar to individual Retirement Accounts (IRA). The "housing IRA" concept was originally introduced by Senator Dole in the 96th and 97th Congresses.

"Although the economy has begun to improve somewhat, the need to explore methods to help Americans buy a home still exists. To the extent that we can design a method to help individuals buy a home which also increases savings, we will have accomplished a second important goal -- increased capital formation," said Dole. "An important part of any effort to boost capital formation must be tax incentives that encourage individual savings. This bill will do that by providing a mechanism for individuals to save for what is generally the major purchase of their lives -- a home of their own."

The bill permits an individual to establish a home account and to obtain a tax deduction of up to $1,000 (or $2,000 with a joint return) for contributions to the account each year for 10 years. An individual or married couple may accumulate up to $10,000 plus investment gain over the life of the account. In addition, the amount allowed as a deduction will be phased out at an income level between $50,000 and $60,000. The bill includes special rules with respect to individuals who marry or are divorced after they have started a home account.

Except for extraordinary circumstances, such as death or divorce, these housing contributions must be used for a home purchase by the end of the tenth year after an initial contribution is made to the account or, if earlier, within one year after total contributions to the account equal $10,000. When the funds are used for the home purchase, they will be recaptured as ordinary income over a period of ten years beginning with the year of distribution. Any amount not included in the taxpayer's gross income before he sells his principal residence will be included in the taxpayer's gross income in the year that sale occurs. In general, any distribution made from a home account that is not used to purchase the individual's primary residence will be included in the individual's gross income upon distribution and subject to a surtax equal to 10 percent of the distribution.

"For example, suppose a couple whose total gross income is $30,000 contributes $2,000 to a home account each year from 1984 through 1987. In 1989, the couple contributed another $2,000. By this time, the account has grown to $11,500, with $10,000 of contributions and $1,500 of investment income," said Dole. "The couple could then deduct $2,000 per year for each year in which they made a contribution. The $1,500 investment income has accumulated tax free. Since the total contributions to the account reached $10,000 in 1989, the couple must use the funds to purchase a principal residence by the end of 1990. When they buy that residence, the $11,500 will be included in the couple's gross income on a pro-rata basis over a period of 5 years (the number of years the couple took the deduction)."

The Housing Opportunity and Mortgage Equity Act, S. 1435, has been referred to the Senate Finance Committee for further action.

-30-