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103D CONGRESS
1ST SESSION

S. 863

To provide for the establishment of demonstration projects designed to determine the social, psychological, and economic effects of providing to individuals with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals with low income to achieve economic self-sufficiency.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 19), 1993

Mr. BRADLEY (for himself, Mr. BIDEN, Mrs. BOXER, Mr. BRYAN, Mrs. FEINSTEIN, Mr. HOLLINGS, Mr. KERREY, Ms. MIKULSKI, Ms. MOSELEY-BRAUN, Mr. REID, Mr. ROBB, Mr. ROCKEFELLER, Mr. SIMON, Mr. WELLSTONE, and Mr. HATCH) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for the establishment of demonstration projects designed to determine the social, psychological, and economic effects of providing to individuals with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals with low income to achieve economic self-sufficiency.

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

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Assets for Independ-
3 ence Demonstration Act".

4 **SEC. 2. FINDINGS.**

5 The Congress finds that—

6 (1) traditional welfare programs in the United
7 States have provided millions of low-income persons
8 with critically needed food, health, and cash benefits,
9 and such programs should be improved and contin-
10 ued;

11 (2) while such programs have sustained millions
12 of low-income persons, too rarely have such pro-
13 grams been successful in promoting and supporting
14 the transition to economic self-sufficiency;

15 (3) millions of Americans continue to live in
16 poverty and continue to receive public assistance;

17 (4) in addition to the social costs of poverty,
18 the economic costs to the Federal Government to
19 provide basic necessities to the poor exceeds
20 \$120,000,000,000 each year;

21 (5) poverty is a loss of human resources and an
22 assault on human dignity;

23 (6) poverty rates remain high and welfare de-
24 pendency continues, in part, because welfare theory
25 has taken for granted that a certain level of income
26 or consumption is necessary for one's economic well-

1 being when, in fact, very few people manage to
2 spend or consume their way out of poverty;

3 (7) economic well-being does not come solely
4 from income, spending, and consumption, but also
5 requires savings, investment, and accumulation of
6 assets, since assets can improve economic stability,
7 connect people with a viable and hopeful future,
8 stimulate development of human and other capital,
9 enable people to focus and specialize, yield personal,
10 social, and political dividends, and enhance the wel-
11 fare of offspring;

12 (8) income-based welfare policy should be com-
13 plemented with asset-based welfare policy, because
14 while income-based policies ensure that present con-
15 sumption needs (such as food, child care, rent, cloth-
16 ing, and health care) are met, asset-based policies
17 can provide the means to achieve economic self-suffi-
18 ciency and, accordingly, to leave public assistance;

19 (9) the Federal Government spends more than
20 \$100,000,000,000 each year to provide middle- and
21 upper-income persons with many incentives to accu-
22 mulate savings and assets (including tax subsidies
23 for home equity accumulation and retirement pen-
24 sion accounts), but such benefits are beyond the
25 reach of most low-income persons;

1 (10) under current welfare policies, poor fami-
 2 lies must deplete most of their assets before qualify-
 3 ing for public assistance;

4 (11) the Federal Government should develop
 5 policies that promote higher rates of personal sav-
 6 ings and net private domestic investment, both of
 7 which fall behind the levels attained in other highly
 8 developed industrial nations; and

9 (12) the Federal Government should undertake
 10 an asset-based welfare policy demonstration project
 11 to determine the social, psychological, and economic
 12 effects of asset accumulation opportunities for low-
 13 income persons and to determine if such a policy
 14 could provide a new foundation for anti-poverty poli-
 15 cies and programs in the United States.

16 **SEC. 3. INDIVIDUAL DEVELOPMENT ACCOUNT DEM-**
 17 **ONSTRATION PROJECTS.**

18 (a) **PURPOSE.**—The purpose of this section is to pro-
 19 vide for the establishment of demonstration projects de-
 20 signed to determine—

21 (1) the social, psychological, and economic ef-
 22 fects of providing to individuals with limited means
 23 an opportunity to accumulate assets; and

1 (2) the extent to which an asset-based welfare
2 policy may be used to enable individuals with low in-
3 come to achieve economic self-sufficiency.

4 (b) APPLICATIONS.—

5 (1) SUBMISSION.—Not later than April 1,
6 1994, any organization may submit to the Secretary
7 of the Treasury (in this section referred to as the
8 “Secretary”) an application to conduct a demonstra-
9 tion project under this section.

10 (2) CONTENTS.—The application shall
11 contain—

12 (A) a description of the demonstration
13 project;

14 (B) information about the ability of the or-
15 ganization to—

16 (i) assist project participants in
17 achieving economic self-sufficiency through
18 the project; and

19 (ii) administer the project;

20 (C) a commitment made to the organiza-
21 tion by the State in which the project is to be
22 conducted that the State will provide a specified
23 amount of funds to the organization for the
24 project, and any similar commitment made to

1 the organization by any other non-Federal pub-
2 lic entity or by any private entity; and

3 (D) a plan to provide the organization
4 evaluating the project with such information
5 with respect to the project as may be required
6 for the evaluation.

7 (3) CRITERIA.—In considering whether or not
8 to approve any application to conduct a demonstra-
9 tion project under this section, the Secretary shall
10 assess the following:

11 (A) SUFFICIENCY OF PROJECT.—The de-
12 gree to which the project described in the appli-
13 cation appears likely to aid project participants
14 in achieving economic self-sufficiency through
15 activities requiring qualified expenses (as de-
16 fined in section 529(c)(1) of the Internal Reve-
17 nue Code of 1986). In making such assessment,
18 the Secretary shall consider the overall quality
19 of project activities and shall not consider aid
20 in making any particular kind or combination
21 of qualified expenses (as so defined) to be an
22 essential feature of any project.

23 (B) ADMINISTRATIVE ABILITY.—The abil-
24 ity of the applicant to responsibly administer
25 the project.

1 (C) COMMITMENT OF NON-FEDERAL
2 FUNDS.—The aggregate amount of funds from
3 non-Federal sources that are committed to the
4 project.

5 (D) ADEQUACY OF PLAN FOR PROVIDING
6 INFORMATION FOR EVALUATION.—The ade-
7 quacy of the plan for providing information rel-
8 evant to an evaluation of the project.

9 (4) APPROVAL.—Not later than June 1, 1995,
10 the Secretary shall, on a competitive basis, approve
11 such applications to conduct demonstration projects
12 under this section as the Secretary deems appro-
13 priate, taking into account the assessment required
14 by paragraph (3).

15 (c) DEMONSTRATION AUTHORITY; ANNUAL
16 GRANTS.—

17 (1) DEMONSTRATION AUTHORITY.—If the Sec-
18 retary approves an application to conduct a dem-
19 onstration project under this section, the Secretary
20 shall, not later than July 1, 1995, authorize the ap-
21 plicant to conduct the project for 5 project years in
22 accordance with the approved application therefor
23 and this section.

24 (2) GRANT AUTHORITY.—For each project year
25 of a demonstration project conducted under this sec-

1 tion, the Secretary shall make a grant to the organi-
2 zation authorized to conduct the project, on the first
3 day of the project year.

4 (3) LIMITATIONS ON GRANT AMOUNTS.—

5 (A) MAXIMUM.—The amount of each grant
6 under paragraph (2) shall be not more than
7 \$20,000,000.

8 (B) FIRST YEAR GRANT LEVEL AS-
9 SURED.—The amount of each grant to an orga-
10 nization under paragraph (2) after the first
11 such grant shall be not less than the amount of
12 such first grant.

13 (C) GRANTS REDUCED, IF NECESSARY, IN
14 PROPORTION TO ANY REDUCTIONS IN APPRO-
15 PRIATIONS AFTER FIRST YEAR.—If the amount
16 appropriated to carry out this section for any
17 particular fiscal year after fiscal year 1995 is
18 less than the amount so appropriated for fiscal
19 year 1995, then the limitations of subpara-
20 graphs (A) and (B) shall each be reduced for
21 the particular fiscal year in equal proportion to
22 the reduction of such appropriations, but only
23 to the extent that the reduction of such limita-
24 tions is made necessary by the reduction in
25 such appropriations.

1 (d) RESERVE FUND.—

2 (1) ESTABLISHMENT.—Each organization au-
3 thorized to conduct a demonstration project under
4 this section shall establish a Reserve Fund which
5 shall be used in accordance with this subsection.

6 (2) AMOUNTS IN RESERVE FUND.—

7 (A) IN GENERAL.—As soon after receipt as
8 is practicable, the organization shall place in
9 the Reserve Fund established under paragraph
10 (1)—

11 (i) all funds provided to the organiza-
12 tion by any public or private entity to con-
13 duct the demonstration project;

14 (ii) the proceeds of any investment
15 made under paragraph (3)(B).

16 (B) INDIVIDUAL DEVELOPMENT ACCOUNT
17 PENALTIES.—

18 (i) PENALTY AMOUNTS AUTHORIZED
19 TO BE APPROPRIATED FOR PAYMENT TO
20 THE RESERVE FUND.—For payment to the
21 Reserve Fund established by an organiza-
22 tion that provides financial assistance
23 under subsection (g) of this section to any
24 individual who pays, or from whose individ-
25 ual development account is paid, a penalty

1 amount, there is authorized to be appro-
2 priated to the Secretary, without fiscal
3 year limitation, an amount equal to the
4 penalty amount.

5 (ii) PAYMENT TO RESERVE FUND OF
6 PENALTY AMOUNTS APPROPRIATED
7 THEREFOR.—The Secretary shall imme-
8 diately pay to the Reserve Fund any
9 amount appropriated pursuant to clause (i)
10 for payment to the Reserve Fund.

11 (C) UNIFORM ACCOUNTING REGULA-
12 TIONS.—The Secretary shall prescribe regula-
13 tions with respect to accounting for amounts in
14 Reserve Funds.

15 (3) USE OF RESERVE FUND.—

16 (A) IN GENERAL.—The organization shall
17 use the amounts in the Reserve Fund estab-
18 lished under paragraph (1) to—

19 (i) assist participants in the dem-
20 onstration project in obtaining the skills
21 and information necessary to achieve eco-
22 nomic self-sufficiency through activities re-
23 quiring qualified expenses (as defined in
24 section 529(c)(1) of the Internal Revenue
25 Code of 1986);

1 (ii) provide financial assistance in ac-
2 cordance with subsection (g) to individuals
3 selected by the organization to participate
4 in the project;

5 (iii) administer the project; and

6 (iv) provide the organization evaluat-
7 ing the project under a contract entered
8 into under subsection (k) with such infor-
9 mation with respect to the project as may
10 be required for the evaluation.

11 (B) AUTHORITY TO INVEST FUNDS.—The
12 organization shall invest such amounts in the
13 Reserve Fund as are not immediately needed to
14 carry out subparagraph (A) of this paragraph,
15 in accordance with guidelines which shall re-
16 quire such investments to be highly liquid and
17 of low risk.

18 (C) LIMITATION ON ADMINISTRATIVE EX-
19 PENSES.—Not more than 10 percent of the
20 amounts provided to the organization under
21 subsection (c)(2) may be used to administer, or
22 notify the public about, the demonstration
23 project.

24 (4) UNUSED FEDERAL GRANT FUNDS TRANS-
25 FERRED TO THE SECRETARY WHEN PROJECT TERMI-

1 NATES.—Notwithstanding paragraph (3), upon the
 2 termination of any demonstration project authorized
 3 under this section, the organization conducting the
 4 project shall transfer to the Secretary an amount
 5 equal to—

6 (A) the amounts in the Reserve Fund at
 7 time of the termination; multiplied by

8 (B) a percentage equal to—

9 (i) the aggregate amount of grants
 10 made to the organization under subsection
 11 (c)(2); divided by

12 (ii) the aggregate of the amounts pro-
 13 vided to the organization by all entities to
 14 conduct the project.

15 (e) ELIGIBILITY FOR ASSISTANCE.—Any individual
 16 who is a member of a household that meets the following
 17 requirements shall be eligible for assistance under a dem-
 18 onstration project conducted under this section:

19 (1) INCOME TEST.—The income of the house-
 20 hold for the immediately preceding calendar year is
 21 not more than 200 percent of the poverty threshold
 22 for such period.

23 (2) NET WORTH TEST.—The net worth of the
 24 household, as of the close of such immediately pre-
 25 ceding calendar year, is not more than \$20,000.

(f) SELECTION OF INDIVIDUALS TO RECEIVE ASSISTANCE.—From among the individuals eligible for assistance under a demonstration project conducted under this section, the organization authorized to conduct the project shall select the individuals—

(1) whom the organization deems to be best suited to receive such assistance; and

(2) to whom the organization will provide financial assistance in accordance with subsection (g).

(g) PROVISION OF FINANCIAL ASSISTANCE.—Each organization to which a grant is made under subsection (c)(2) of this section for a project year shall, during the project year, deposit directly into the individual development account of any individual selected by the organization under subsection (f) of this section an amount determined in accordance with the following table:

If the income of the individual for the applicable period is the following percentage of the poverty threshold:	The amount is not to exceed the lesser of:		
	The following percentage of the qualified savings of the individual for the period:	OR	The following dollar amount:
Not more than 75 percent ...	300	or	\$1,500
More than 75 percent but not more than 125 percent.	100	or	\$1,000
More than 125 percent but not more than 160 percent.	66	or	\$750
More than 160 percent but not more than 200 percent.	33	or	\$500.

1 (h) LOCAL CONTROL OVER DEMONSTRATION
2 PROJECTS.—Each organization authorized to conduct a
3 demonstration project under this section shall, subject to
4 the provisions of subsection (j), have sole authority over
5 the administration of the project. The Secretary may pre-
6 scribe only such regulations with respect to demonstration
7 projects under this section as are necessary to ensure com-
8 pliance with the approved applications therefor and this
9 section.

10 (i) SEMIANNUAL PROGRESS REPORTS.—

11 (1) IN GENERAL.—Each organization author-
12 ized to conduct a demonstration project under this
13 section shall prepare 10 semiannual reports on the
14 progress of the project, including—

15 (A) information on participation of individ-
16 uals in the project;

17 (B) information on amounts in the Reserve
18 Fund established with respect to the project;

19 (C) information on amounts in the individ-
20 ual development accounts of the individuals to
21 whom assistance is provided under the project;
22 and

23 (D) such other information as the Sec-
24 retary may require to assess the project.

(2) SUBMISSION OF REPORTS.—The organization shall submit each report required to be prepared under paragraph (1) with respect to a demonstration project to—

(A) the Secretary; and

(B) the Treasurer (or equivalent official) of the State in which the project is conducted.

(3) TIMING.—The first report required by paragraph (1) shall be submitted at the end of the 6-month period beginning on the date the Secretary authorized the organization to conduct the demonstration project, and subsequent reports shall be submitted 6 months apart.

(j) SANCTIONS.—

(1) AUTHORITY TO REVOKE DEMONSTRATION AUTHORITY.—If the Secretary determines a demonstration project is not operating in accordance with its application and this section (and has not implemented any recommendations made by the Secretary), the Secretary may revoke the original authorization to conduct the project.

(2) ACTIONS REQUIRED UPON REVOCATION.—If the Secretary revokes the original authorization to conduct a demonstration project, the Secretary—

(A) shall suspend the project;

1 (B) shall take control of the Reserve Fund
2 established pursuant to subsection (d) as part
3 of the project;

4 (C) shall make every effort to find another
5 organization willing and able to conduct the
6 project in accordance with the approved appli-
7 cation therefor (as modified, if necessary, to
8 incorporate the recommendations) and this
9 section;

10 (D) if the Secretary finds such an organi-
11 zation, shall—

12 (i) authorize the organization to con-
13 duct the project in accordance with the ap-
14 proved application therefor (as modified, if
15 necessary, to incorporate the recommenda-
16 tions) and this section;

17 (ii) transfer to the organization con-
18 trol over the Reserve Fund established
19 pursuant to subsection (d) as part of the
20 project; and

21 (iii) for purposes of this section,
22 consider—

23 (I) such other organization to be
24 the organization originally authorized
25 to conduct the project; and

1 (II) the date of such authoriza-
 2 tion to be the date of the original au-
 3 thorization; and

4 (E) if, by the end of the 1-year period be-
 5 ginning on the date of such revocation, the Sec-
 6 retary has not found such an organization,
 7 shall—

8 (i) terminate the project; and

9 (ii) from the Reserve Fund estab-
 10 lished as part of the project, remit to each
 11 entity that has provided amounts to the or-
 12 ganization originally authorized to conduct
 13 the project, an amount equal to that per-
 14 centage of the aggregate of the amounts so
 15 provided by all entities that is represented
 16 by the amount so provided by such entity.

17 (k) EVALUATIONS.—

18 (1) IN GENERAL.—Not later than July 1, 1995,
 19 the Secretary shall enter into a contract with an
 20 independent research organization that requires the
 21 organization, in accordance with this subsection, to
 22 evaluate the demonstration projects conducted under
 23 this section, individually and as a group.

24 (2) RESEARCH QUESTIONS.—In evaluating any
 25 demonstration project conducted under this section,

1 the research organization shall address the following
2 questions:

3 (A) What types of information and public
4 education efforts are successful in attracting
5 project participants?

6 (B) How can participation in the dem-
7 onstration project be made as easy and acces-
8 sible as possible for participants?

9 (C) What level of financial incentives is re-
10 quired to stimulate participation in the dem-
11 onstration project, and does this vary among
12 different populations?

13 (D) What program features in conjunction
14 with individual development accounts (such as
15 peer support, structured planning exercises,
16 mentoring, and case management) increase the
17 rate and consistency of participation in the
18 demonstration project?

19 (E) What are the economic, psychological,
20 and social effects of asset accumulation, and for
21 whom? To what extent, under what cir-
22 cumstances, and for whom does asset accumula-
23 tion under the demonstration project lead to
24 any or all of the following:

- 1 (i) A greater sense of security and
2 control?
- 3 (ii) Greater stability in the household?
- 4 (iii) A more positive future outlook?
- 5 (iv) More long-term planning?
- 6 (v) Increased efforts to maintain and
7 develop assets?
- 8 (vi) Greater knowledge about savings,
9 investments, and other financial matters?
- 10 (vii) Increased effort and success in
11 educational achievement (including those
12 of parents working to provide for the edu-
13 cation of their children)?
- 14 (viii) Increased specialization in career
15 development?
- 16 (ix) Greater self-esteem and personal
17 efficacy?
- 18 (x) Improved social status?
- 19 (xi) Increased political participation?
- 20 (xii) Increased community involve-
21 ment?
- 22 (xiii) Increased labor earnings in the
23 long term?

1 (xiv) Decreased reliance on traditional
2 forms of public assistance in the long
3 term?

4 (3) METHODOLOGICAL REQUIREMENTS.—In
5 evaluating any demonstration project conducted
6 under this section, the research organization shall—

7 (A) use control groups to compare partici-
8 pants with nonparticipants as much as possible;

9 (B) before, during, and after the project,
10 obtain such quantitative data as are necessary
11 to thoroughly evaluate the project; and

12 (C) develop a qualitative assessment, de-
13 rived from sources such as in depth interviews,
14 of how asset accumulation affects individuals
15 and families.

16 (1) DEFINITIONS.—As used in this section:

17 (1) APPLICABLE PERIOD.—The term “applica-
18 ble period” means, with respect to amounts to be
19 paid from a grant made for a project year, the cal-
20 endar year immediately preceding the calendar year
21 in which the grant is made.

22 (2) HOUSEHOLD.—The term “household”
23 means all individuals who share use of a dwelling
24 unit as primary quarters for living and eating sepa-
25 rate from other individuals.

1 (3) HOUSEHOLD NET WORTH.—

2 (A) IN GENERAL.—The term “net worth”
3 means, with respect to a household, the aggregate
4 market value of all assets not excluded
5 under subparagraph (B) that are owned in
6 whole or in part by any member of the house-
7 hold, minus the obligations or debts of any
8 member of the household.

9 (B) ASSETS EXCLUDED.—The following
10 assets (and obligations or debts with respect
11 thereto) shall be excluded in determining the
12 net worth of any household:

13 (i) \$35,000 OF HOME EQUITY.—The
14 lesser of—

15 (I) the equity of the members of
16 the household in the dwelling unit in
17 which the members reside; or

18 (II) \$35,000.

19 (ii) MOTOR VEHICLE.—The most val-
20 uable motor vehicle owned by any member
21 of the household.

22 (iii) FURNITURE; APPLIANCES;
23 CLOTHING.—All furniture, appliances, and
24 clothing used by any member of the house-
25 hold in the course of daily living.

1 (iv) ART OBJECTS.—All art objects
2 displayed in the dwelling unit in which the
3 members of the household reside.

4 (v) JEWELRY.—All jewelry owned by
5 any member of the household.

6 (4) INDIVIDUAL DEVELOPMENT ACCOUNT.—
7 The term “individual development account” has the
8 same meaning given such term in section 529 of the
9 Internal Revenue Code of 1986.

10 (5) PENALTY AMOUNT.—The term “penalty
11 amount” means any of the following:

12 (A) FINANCIAL ASSISTANCE FORFEITED.—
13 Any amount paid into the general fund of the
14 Treasury of the United States under section
15 529(e) of the Internal Revenue Code of 1986.

16 (B) 10 PERCENT ADDITION TO TAX.—Any
17 additional tax imposed by section 529(f) of the
18 Internal Revenue Code of 1986.

19 (C) OTHER PENALTY TAXES.—Any tax im-
20 posed with respect to an individual development
21 account by section 4973, 4975, or 6693 of the
22 Internal Revenue Code of 1986.

23 (6) POVERTY THRESHOLD.—The term “poverty
24 threshold” means, with respect to a calendar year,
25 the Federal poverty line for the calendar year for the

1 relevant family size, as defined annually by the Bu-
 2 reau of the Census.

3 (7) PROJECT YEAR.—The term “project year”
 4 means, with respect to a demonstration project, any
 5 of the 5 consecutive 12-month periods beginning on
 6 the date the project is originally authorized to be
 7 conducted.

8 (8) QUALIFIED SAVINGS OF THE INDIVIDUAL
 9 FOR THE PERIOD.—The term “qualified savings of
 10 the individual for the period” means the aggregate
 11 of the amounts contributed by the individual to the
 12 individual development account of the individual
 13 during the period.

14 (m) LIMITATIONS ON AUTHORIZATION OF APPRO-
 15 PRIATIONS.—

16 (1) IN GENERAL.—To carry out this section,
 17 there are authorized to be appropriated to the Sec-
 18 retary of the Treasury not to exceed \$100,000,000
 19 for each of fiscal years 1994, 1995, 1996, 1997, and
 20 1998.

21 (2) CERTAIN AMOUNTS TO BE USED FOR EVAL-
 22 UATIONS.—The Secretary shall expend from
 23 amounts appropriated under paragraph (1) such
 24 amounts as the Secretary determines appropriate to

1 obtain evaluations of the projects in accordance with
2 subsection (k).

3 **SEC. 4. INDIVIDUAL DEVELOPMENT ACCOUNTS.**

4 (a) IN GENERAL.—Subchapter F of chapter 1 of the
5 Internal Revenue Code of 1986 (relating to additional
6 itemized deductions for individuals) is amended by adding
7 at the end the following new part:

8 **“PART VIII—INDIVIDUAL DEVELOPMENT**
9 **ACCOUNTS**

“Sec. 529. Individual development accounts.

10 **“SEC. 529. INDIVIDUAL DEVELOPMENT ACCOUNTS.**

11 **“(a) ESTABLISHMENT OF ACCOUNTS.—**

12 **“(1) IN GENERAL.—**An individual development
13 account may be established by or on behalf of an eli-
14 gible individual for the purpose of accumulating
15 funds to pay the qualified expenses of such individ-
16 ual.

17 **“(2) ELIGIBLE INDIVIDUAL.—**The term ‘eligible
18 individual’ means an individual for whom assistance
19 is (or at any prior time was) provided under section
20 3(g) of the Individual Development Account Dem-
21 onstration Act.

22 **“(b) LIMITATIONS.—**

23 **“(1) ACCOUNT MAY NOT BE ESTABLISHED FOR**
24 **BENEFIT OF MORE THAN 1 INDIVIDUAL.—**An indi-

vidual development account may not be established for the benefit of more than 1 individual.

“(2) ELIGIBLE INDIVIDUAL TREATED AS ELIGIBLE INDIVIDUAL ONLY WITH RESPECT TO 1 ACCOUNT.—If, at any time during a calendar year, 2 or more individual development accounts are maintained for the benefit of an eligible individual, such individual shall be treated as an eligible individual for the calendar year only with respect to the 1st of such accounts.

“(3) ANNUAL LIMIT.—Contributions to an individual development account for any taxable year shall not exceed \$2,000. No contribution to the account under section 3(g) of the Individual Development Account Demonstration Act shall be taken into account for purposes of this paragraph.

“(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) QUALIFIED EXPENSES.—The term ‘qualified expenses’ means 1 or more of the following, as provided by the organization providing assistance to the individual under section 3(g) of the Individual Development Account Demonstration Act:

“(A) POST-SECONDARY EDUCATION EXPENSES.—Post-secondary educational expenses

1 paid from an individual development account di-
2 rectly to an eligible educational institution. For
3 purposes of this subparagraph—

4 “(i) IN GENERAL.—The term ‘post-
5 secondary educational expenses’ means—

6 “(I) tuition and fees required for
7 the enrollment or attendance of a stu-
8 dent at an eligible educational institu-
9 tion,

10 “(II) fees, books, supplies, and
11 equipment required for courses of in-
12 struction at an eligible educational in-
13 stitution, and

14 “(III) a reasonable allowance for
15 meals, lodging, transportation, and
16 child care, while attending an eligible
17 educational institution.

18 “(ii) ELIGIBLE EDUCATIONAL INSTI-
19 TUTION.—The term ‘eligible educational
20 institution’ means the following:

21 “(I) INSTITUTION OF HIGHER
22 EDUCATION.—An institution described
23 in section 481(a)(1) or 1201(a) of the
24 Higher Education Act of 1965 (20
25 U.S.C. 1088(a)(1) or 1141(a)), as

such sections are in effect on the date of the enactment of this section.

“(II) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—An area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

“(B) FIRST-HOME PURCHASE.—Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer, if paid from an individual development account directly to the persons to whom the amounts are due. For purposes of this subparagraph—

“(i) QUALIFIED ACQUISITION COSTS.—The term ‘qualified acquisition costs’ means the costs of acquiring, constructing, or reconstructing a residence. The term includes any usual or reasonable

1 settlement, financing, or other closing
2 costs.

3 “(ii) QUALIFIED PRINCIPAL RESI-
4 DENCE.—The term ‘qualified principal resi-
5 dence’ means a principal residence (within
6 the meaning of section 1034), the qualified
7 acquisition costs of which do not exceed
8 110 percent of the average area purchase
9 price applicable to such residence (deter-
10 mined in accordance with paragraphs (2)
11 and (3) of section 143(e)).

12 “(iii) QUALIFIED FIRST-TIME HOME-
13 BUYER.—

14 “(I) IN GENERAL.—The term
15 ‘qualified first-time homebuyer’ means
16 a taxpayer (and, if married, the tax-
17 payer’s spouse) who has no present
18 ownership interest in a principal resi-
19 dence during the 3-year period ending
20 on the date of acquisition of the prin-
21 cipal residence to which this subpara-
22 graph applies.

23 “(II) DATE OF ACQUISITION.—
24 The term ‘date of acquisition’ means
25 the date on which a binding contract

1 to acquire, construct, or reconstruct
2 the principal residence to which this
3 subparagraph applies is entered into.

4 “(C) BUSINESS CAPITALIZATION.—

5 Amounts paid from an individual development
6 account directly to a business capitalization ac-
7 count which is established in a federally insured
8 financial institution and is restricted to use
9 solely for qualified business capitalization ex-
10 penses. For purposes of this subparagraph—

11 “(i) QUALIFIED BUSINESS CAPITAL-
12 IZATION EXPENSES.—The term ‘qualified
13 business capitalization expenses’ means
14 qualified expenditures for the capitalization
15 of a qualified business pursuant to a quali-
16 fied plan.

17 “(ii) QUALIFIED EXPENDITURES.—
18 The term ‘qualified expenditures’ means
19 expenditures included in a qualified plan,
20 including capital, plant, equipment, work-
21 ing capital, and inventory expenses.

22 “(iii) QUALIFIED BUSINESS.—The
23 term ‘qualified business’ means any busi-
24 ness that does not contravene any law or

1 public policy (as determined by the Sec-
2 retary).

3 “(iv) QUALIFIED PLAN.—The term
4 ‘qualified plan’ means a business plan
5 which—

6 “(I) is approved by a financial in-
7 stitution, or by a nonprofit loan fund
8 having demonstrated fiduciary integ-
9 rity,

10 “(II) includes a description of
11 services or goods to be sold, a market-
12 ing plan, and projected financial
13 statements, and

14 “(III) may require the eligible in-
15 dividual to obtain the assistance of an
16 experienced entrepreneurial advisor.

17 “(D) RETIREMENT EXPENSES.—Expenses
18 for which amounts may be distributed from an
19 individual retirement plan, subject to the same
20 requirements and limitations as apply to such
21 amounts.

22 “(E) TRANSFERS TO IDA’S OF FAMILY
23 MEMBERS.—Amounts paid from an individual
24 development account directly into another such

1 account established for the benefit of an eligible
2 individual who is—

3 “(i) the taxpayer’s spouse, or

4 “(ii) any dependent of the taxpayer
5 with respect to whom the taxpayer is al-
6 lowed a deduction under section 151.

7 “(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—

8 The term ‘individual development account’ means a
9 trust created or organized in the United States ex-
10 clusively for the purpose of paying the qualified ex-
11 penses of an eligible individual, but only if the writ-
12 ten governing instrument creating the trust meets
13 the following requirements:

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

16 “(B) The trustee is a federally insured fi-
17 nancial institution.

18 “(C) The assets of the account will be in-
19 vested in accordance with the direction of the
20 eligible individual.

21 “(D) The assets of the trust will not be
22 commingled with other property except in a
23 common trust fund or common investment
24 fund.

1 “(E) Except as provided in subparagraph
2 (F), any amount in the account which is attrib-
3 utable to assistance provided under section 3(g)
4 of the Individual Development Account Dem-
5 onstration Act may be paid or distributed out
6 of the account only for the purpose of paying
7 the qualified expenses of the eligible individual.

8 “(F) Any balance in the account on the
9 day after the date on which the individual for
10 whose benefit the trust is established dies will
11 be distributed within 30 days of such date as
12 directed by such individual to another individual
13 development account established for the benefit
14 of an eligible individual.

15 “(4) TIME WHEN CONTRIBUTIONS DEEMED
16 MADE.—A taxpayer shall be deemed to have made a
17 contribution on the last day of the preceding taxable
18 year if the contribution is made on account of such
19 taxable year and is made not later than the time
20 prescribed by law for filing the return for such tax-
21 able year (including extensions thereof).

22 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

23 “(1) IN GENERAL.—Except as otherwise pro-
24 vided in this subsection, any amount paid or distrib-
25 uted out of an individual development account shall

1 be included in gross income of the payee or distribu-
2 tee for the taxable year in the manner provided in
3 section 72.

4 “(2) DISTRIBUTION USED TO PAY QUALIFIED
5 EXPENSES.—A payment or distribution out of an in-
6 dividual development account shall not be included
7 in gross income to the extent such payment or dis-
8 tribution is used exclusively to pay the qualified ex-
9 penses incurred by the eligible individual for whose
10 benefit the account is established.

11 “(3) ASSISTANCE PAYMENTS.—For purposes of
12 section 72, contributions to the account under sec-
13 tion 3(g) of the Individual Development Account
14 Demonstration Act shall be treated in the same
15 manner as earnings on the account.

16 “(e) TAX TREATMENT OF ACCOUNTS.—

17 “(1) EXEMPTION FROM TAX.—An individual
18 development account is exempt from taxation under
19 this subtitle unless such account has ceased to be an
20 individual development account by reason of para-
21 graph (2). Notwithstanding the preceding sentence,
22 any such account is subject to the taxes imposed by
23 section 511 (relating to imposition of tax on unre-
24 lated business income of charitable, etc. organiza-
25 tions).

1 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
2 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
3 ACTION.—

4 “(A) IN GENERAL.—If the individual for
5 whose benefit an individual development ac-
6 count is established or any individual who con-
7 tributes to such account engages in any trans-
8 action prohibited by section 4975 with respect
9 to the account, the account shall cease to be an
10 individual development account as of the 1st
11 day of the taxable year (of the individual so en-
12 gaging in such transaction) during which such
13 transaction occurs.

14 “(B) ACCOUNT TREATED AS DISTRIBUTING
15 ALL ITS ASSETS.—In any case in which any ac-
16 count ceases to be an individual development
17 account by reason of subparagraph (A) as of
18 the 1st day of any taxable year—

19 “(i) all assets in the account on such
20 1st day which are attributable to assist-
21 ance provided under section 3(g) of the In-
22 dividual Development Account Demonstra-
23 tion Act shall be paid into the general fund
24 of the Treasury of the United States, and

1 “(ii) paragraph (1) of subsection (d)
2 shall apply as if there was a distribution
3 on such 1st day in an amount equal to the
4 fair market value of all other assets in the
5 account on such 1st day.

6 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-
7 RITY.—If, during any taxable year, the individual for
8 whose benefit an individual development account is
9 established, or any individual who contributes to
10 such account, uses the account or any portion there-
11 of as security for a loan—

12 “(A) an amount equal to the part of the
13 portion so used which is attributable to assist-
14 ance provided under section 3(g) of the Individ-
15 ual Development Account Demonstration Act
16 shall be paid into the general fund of the Treas-
17 ury of the United States, and

18 “(B) the remaining part of the portion so
19 used shall be treated as distributed to the indi-
20 vidual so using such portion.

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

23 “(1) DISTRIBUTION NOT USED FOR QUALIFIED
24 EXPENSES.—In the case of any payment or distribu-
25 tion to which subsection (d)(1) applies, the tax li-

1 ability of each payee or distributee under this chap-
2 ter for the taxable year in which the payment or dis-
3 tribution is received shall be increased by an amount
4 equal to 10 percent of the amount of the distribution
5 which is includible in the gross income of such payee
6 or distributee for such taxable year.

7 “(2) DISQUALIFICATION CASES.—If an amount
8 is includible in the gross income of an individual for
9 a taxable year because such amount is required to
10 be treated as a distribution under paragraph (2) or
11 (3) of subsection (e), such individual’s tax liability
12 under this chapter for such taxable year shall be in-
13 creased by an amount equal to 10 percent of such
14 amount required to be treated as a distribution and
15 included in such individual’s gross income.

16 “(3) DISABILITY OR DEATH CASES.—Para-
17 graphs (1) and (2) shall not apply if the payment
18 or distribution is made after the individual for whose
19 benefit the individual development account becomes
20 disabled within the meaning of section 72(m)(7) or
21 dies.

22 “(g) COMMUNITY PROPERTY LAWS.—This section
23 shall be applied without regard to any community property
24 laws.

1 “(h) CUSTODIAL ACCOUNTS.—For purposes of this
2 section, a custodial account shall be treated as a trust if
3 the assets of such account are held by a bank (as defined
4 in section 408(n)) or another person who demonstrates,
5 to the satisfaction of the Secretary, that the manner in
6 which he will administer the account will be consistent
7 with the requirements of this section, and if the custodial
8 account would, except for the fact that it is not a trust,
9 constitute an individual development account described in
10 subsection (c)(2). For purposes of this title, in the case
11 of a custodial account treated as a trust by reason of the
12 preceding sentence, the custodian of such account shall be
13 treated as the trustee thereof.

14 “(i) REPORTS.—The trustee of an individual develop-
15 ment account shall—

16 “(1) prepare reports regarding the account with
17 respect to contributions, distributions, and any other
18 matter required by the Secretary under regulations,
19 and

20 “(2) submit such reports, at the time and in
21 the manner prescribed by the Secretary in regula-
22 tions, to—

23 “(A) the individual for whose benefit the
24 account is maintained,

1 “(B) the organization providing assistance
2 to the individual under section 3(g) of the Indi-
3 vidual Development Account Demonstration
4 Act, and

5 “(C) the Secretary.”

6 (b) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—
7 Section 2503 of such Code (relating to taxable gifts) is
8 amended by adding at the end the following new sub-
9 section:

10 “(h) INDIVIDUAL DEVELOPMENT ACCOUNTS.—Any
11 contribution made by an individual to an individual devel-
12 opment account described in section 529(c)(3) shall not
13 be treated as a transfer of property by gift for purposes
14 of this chapter.”

15 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
16 4975 of such Code (relating to prohibited transactions)
17 is amended—

18 (1) by adding at the end of subsection (c) the
19 following new paragraph:

20 “(4) SPECIAL RULE FOR INDIVIDUAL DEVELOP-
21 MENT ACCOUNTS.—An individual for whose benefit
22 an individual development account is established and
23 any contributor to such account shall be exempt
24 from the tax imposed by this section with respect to
25 any transaction concerning such account (which

1 would otherwise be taxable under this section) if,
2 with respect to such transaction, the account ceases
3 to be an individual development account by reason
4 of the application of section 529(e)(2)(A) to such ac-
5 count.”, and

6 (2) by inserting “, an individual development
7 account described in section 529(c)(3),” in sub-
8 section (e)(1) after “described in section 408(a)”.

9 (d) **FAILURE TO PROVIDE REPORTS ON INDIVIDUAL**
10 **DEVELOPMENT ACCOUNTS.**—Section 6693 of such Code
11 (relating to failure to provide reports on individual retire-
12 ment accounts or annuities) is amended—

13 (1) by inserting “**OR ON INDIVIDUAL DEVEL-**
14 **OPMENT ACCOUNTS**” after “**ANNUITIES**” in the
15 heading of such section, and

16 (2) by adding at the end of subsection (a) the
17 following new sentence: “The person required by sec-
18 tion 529(i) to file a report regarding an individual
19 development account at the time and in the manner
20 required by such section shall pay a penalty of \$50
21 for each failure, unless it is shown that such failure
22 is due to reasonable cause.”

23 (e) **SPECIAL RULE FOR DETERMINING AMOUNTS OF**
24 **SUPPORT FOR DEPENDENT.**—Subsection (b) of section
25 152 of such Code (relating to definition of dependent) is

1 amended by adding at the end the following new para-
2 graph:

3 “(6) A distribution from an individual develop-
4 ment account described in section 529(c)(3) to the
5 individual for whose benefit such account has been
6 established shall not be taken into account in deter-
7 mining support for purposes of this section to the
8 extent such distribution is excluded from gross in-
9 come of such individual under section 529(d)(2).”

10 (f) CLERICAL AMENDMENTS.—

11 (1) The table of parts for subchapter F of
12 chapter 1 of such Code is amended by inserting at
13 the end the following new item:

“Part VIII. Individual development accounts.”

14 (2) The table of sections for subchapter B of
15 chapter 68 of such Code is amended by striking the
16 item relating to section 6693 and inserting the fol-
17 lowing new item:

“Sec. 6693. Failure to provide reports on individual retirement
accounts or annuities or on individual development
accounts.”

18 (h) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to contributions made after June
20 30, 1993.

1 **SEC. 5. FUNDS IN INDIVIDUAL DEVELOPMENT ACCOUNTS**
2 **OF DEMONSTRATION PROJECT PARTICI-**
3 **PANTS DISREGARDED FOR PURPOSES OF ALL**
4 **MEANS-TESTED FEDERAL PROGRAMS.**

5 Notwithstanding any Federal law (other than the In-
6 ternal Revenue Code of 1986) that requires consideration
7 of 1 or more financial circumstances of an individual, for
8 the purpose of determining eligibility to receive, or the
9 amount of, any assistance or benefit authorized by such
10 law to be provided to or for the benefit of such individual,
11 funds (including interest accruing) in an individual devel-
12 opment account (as defined in section 529 of the Internal
13 Revenue Code of 1986) shall be disregarded for such pur-
14 pose with respect to any period during which such individ-
15 ual participates in a demonstration project conducted
16 under section 3 of this Act (or would be participating in
17 such a project but for the suspension of the project).

○

THE WHITE HOUSE

WASHINGTON

May 3, 1994

MEMORANDUM FOR CANTA PIAM

FROM: PAUL WEINSTEIN
SHERYLL CASHIN
CONNIE DUNHAM

SUBJECT: FINAL LEGISLATIVE LANGUAGE FOR
INDIVIDUAL DEVELOPMENT ACCOUNT AND
MICROENTERPRISE INITIATIVES

As promised, please find attached the final language for the IDA and Microenterprise proposals. If you have any questions please feel free to contact us. If you have any technical drafting questions regarding the IDA demonstration or the IDA changes to the Tax Code, you can call Karen Dorsey at Treasury (622-1192) or Paul Weinstein (456-5577). Sheryll Cashin can be reached regarding the Microenterprise Demonstration at 622-6410.

We should meet in approximately one to two weeks after these two sections have been added to the welfare reform legislation and the reinventing government piece has been completed.

We have included a disk for your convenience.

cc: Bruce Reed
Kathi Way

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2
3
4
5
6 **TITLE ____ — ECONOMIC INDEPENDENCE**

7 **SEC. __1. SHORT TITLE.**

8 This title may be cited as the "Individual Development
9 Account Demonstration Act of 1994".

10 **SEC. __2. DECLARATION OF POLICY AND STATEMENT OF PURPOSE.**

11 (a) **DECLARATION OF POLICY.**—It is the policy of the United
12 States—

13 (1) to eliminate legal and regulatory barriers that
14 prevent recipients of Aid to Families with Dependent Chil-
15 dren (AFDC) from becoming self-sufficient through self-
16 employment and asset accumulation;

17 (2) to identify and implement cost-effective strategies
18 to encourage saving and entrepreneurship among the broadest
19 possible range of low-income families, particularly families
20 eligible for AFDC, and that have the potential to reduce
21 Federal spending on transfers and services to the disadvan-
22 taged;

23 (3) to enhance private-sector opportunities for low-
24 income families by enabling them to use their own human and
25 financial resources through expansion of business invest-
26 ment, job creation, home ownership, and human capital in-
27 vestment; and

(4) to expand the capacity of local organizations to provide asset-related services that help people to help themselves such as savings mechanisms, loan funds, technical assistance, and entrepreneurial training.

(b) **STATEMENT OF PURPOSE.**—The purpose of the demonstration projects authorized under this title is to provide for a means of determining—

(1) the social, psychological, and economic effects of providing low-income individuals the opportunity to accumulate assets and develop and utilize entrepreneurial skills; and

(2) the extent to which an asset-based assistance policy may be used to enable individuals with low-income to achieve economic self-sufficiency.

SEC. __3. INDIVIDUAL DEVELOPMENT ACCOUNT DEMONSTRATION PROJECTS.

(a) **IN GENERAL.**—Not later than one year after the date of enactment of this Act, any State or local government, or any qualified organization may apply to the Administrator/Chairperson of the Community Development Bank and Financial Institutions Fund (hereinafter the Administrator/Chairperson) for a grant to conduct individual development account demonstration projects for eligible persons.

(b) **CONTENTS.**—Each application shall—

(1) describe the demonstration project;

(2) describe the persons who will participate in the project;

1 (3) demonstrate the ability of the applicant—

2 (A) to assist project participants in achieving
3 economic self-sufficiency through the project; and

4 (B) to assist project participants in developing
5 greater knowledge about savings, investments, and other
6 financial matters;

7 (C) to oversee the use of grant funds, including
8 the documentation and verification of start-up expenses
9 in the case of entrepreneurial assistance; and

10 (D) to effectively administer the project;

11 (4) in the case of a qualified organization, document a
12 commitment by the State in which the project is to be con-
13 ducted to provide a specified amount of funds to the quali-
14 fied organization for the project, and any similar commit-
15 ment made to the qualified organization by any other non-
16 Federal public entity or by any private entity;

17 (5) contain a plan for maintaining data and other
18 information concerning assistance provided to project par-
19 ticipants sufficient to evaluate the project and a certifi-
20 cation that the applicant will fully cooperate and provide
21 access to all information concerning the project in connec-
22 tion with any evaluation of the project conducted pursuant
23 to subsection (1); and

24 (6) contain such other information as the Administra-
25 tor/Chair may prescribe.

26 (c) **CRITERIA.**—In considering whether to approve an applica-

tion, the Administrator/Chairperson shall assess the following:

(1) The degree to which the project described in the application is likely to aid project participants in achieving economic self-sufficiency through activities requiring qualified expenses. In making such assessment, the Administrator/Chairperson shall consider the overall quality of project activities and shall not consider any particular kind or combination of such qualified expenses to be an essential feature of any project.

(2) The ability of the applicant to responsibly administer the project.

(3) The amount of funds from non-Federal sources that are committed to the project.

(4) The adequacy of the plan for maintaining information necessary to evaluate the project.

(d) APPROVAL.—

(1) The Administrator/Chairperson shall, on a competitive basis, approve such applications to conduct demonstration projects under this section as the Administrator/Chairperson deems appropriate on the basis of the criteria described in subsection (c).

(2) No court shall have jurisdiction to review the approval or nonapproval of any application by the Administrator/Chairperson.

(e) DEMONSTRATION AUTHORITY; ANNUAL GRANTS.—

(1) **DEMONSTRATION AUTHORITY.**—The approval by the

1 Administrator of an application shall authorize the appli-
2 cant (hereinafter the grantee) to conduct the project for
3 five project years in accordance with the approved applica-
4 tion and the requirements of this section.

5 (2) **ANNUAL GRANTS.**—The Administrator/Chairperson shall
6 make a grant to each grantee on the first day of each pro-
7 ject year.

8 (f) **RESERVE FUND.**—

9 (1) **ESTABLISHMENT.**—Each grantee shall establish a
10 reserve fund that shall be used in accordance with this
11 subsection.

12 (2) **DEPOSITS.**—

13 (A) As soon after receipt as is practicable, a
14 grantee shall deposit into the reserve fund—

15 (i) all annual grants made by the Administra-
16 tor/Chairperson;

17 (ii) all funds provided to the grantee by any
18 non-Federal public or private entity to conduct
19 the demonstration project;

20 (iii) all proceeds from any investments made
21 pursuant to paragraph (4); and

22 (iv) all amounts title to which vests in the
23 grantee pursuant to subsection (h)(5).

24 (3) **EXPENDITURES.**—A grantee shall use amounts in the
25 reserve fund only—

26 (A) to assist project participants in obtaining

1 the skills and information necessary to achieve eco-
2 nomic self-sufficiency through activities requiring the
3 payment of qualified expenses;

4 (B) to provide financial assistance in accordance
5 with subsection (h) to project participants;

6 (C) to administer the project; and

7 (D) to maintain and provide information necessary
8 for the evaluation of the project pursuant to subsec-
9 tion (1).

10 (4) **AUTHORITY TO INVEST FUNDS.**—A grantee entity may
11 invest amounts in the reserve fund that are not immediately
12 needed to make expenditures authorized by paragraph (3), in
13 highly liquid low risk investments in accordance with guide-
14 lines issued by the Administrator/Chairperson in consulta-
15 tion with the Secretary of the Treasury.

16 (5) **ACCOUNTING STANDARDS.**—The Administra-
17 tor/Chairperson shall prescribe regulations governing the
18 accounting of amounts deposited in and withdrawn from re-
19 serve funds.

20 (6) **TERMINATION OF PROJECT.**—Notwithstanding paragraph
21 (3), upon the termination of any demonstration project
22 approved under this section, remaining amounts in the re-
23 serve fund established with respect to such project and
24 remaining investments made from amounts in the reserve fund
25 shall be distributed to the Administrator/Chairperson and
26 each non-Federal public or private entity that contributed

1 to the project in proportion to their contributions.

2 (g) **SELECTION OF ELIGIBLE PERSONS TO RECEIVE ASSISTANCE.—**

3 A grantee shall provide individual development account assistance
4 to eligible persons whom the grantee deems to be best situated to
5 benefit from such assistance, taking into account the amount of
6 grants made by the Administrator/Chairperson and other funds
7 available to the grantee for such assistance.

8 (h) **FINANCIAL ASSISTANCE FOR INDIVIDUAL DEVELOPMENT AC-**
9 **COUNTS.—**

10 (1) **IN GENERAL.—**A grantee shall provide initial finan-
11 cial assistance to a project participant who establishes an
12 individual development account, not to exceed \$500 per
13 participant. Such financial assistance shall be deposited
14 in the individual development account established by a
15 project participant.

16 (2) **MATCHING CONTRIBUTIONS.—**The Administra-
17 tor/Chairperson or a grantee may make matching contributions
18 of not less than 50 cents and not more than \$4 for every \$1
19 dollar deposited into an individual development account by a
20 project participant, not to exceed \$2,500 for any project
21 participant.

22 (3) **LIMITATION ON USE.—**

23 (A) Financial assistance provided pursuant to
24 paragraph (1) shall not be available for use by a pro-
25 ject participant until—

26 (i) the individual development account is

1 closed; and

2 (ii) a project participant has deposited into
3 the individual development account an amount equal
4 to the initial financial assistance provided pur-
5 suant to paragraph (1).

6 (B) Financial assistance provided pursuant to
7 paragraph (1) or (2) shall be used by a project partic-
8 ipant only for the payment of qualified expenses.

9 (4) **APPLICABILITY OF OTHER LAW.**—The provisions of
10 section 529 of the Internal Revenue Code of 1986 (26 U.S.C.
11 529) and such rules, regulations and procedures as may be
12 prescribed by the Secretary of the Treasury under such Code
13 shall apply to an individual development account for which
14 financial assistance is provided pursuant to this subsec-
15 tion.

16 (5) **EFFECT OF PROHIBITED TRANSACTIONS.**—In the event
17 that an individual development account ceases to be an
18 individual development account under the provisions of
19 section 529(e) of the Internal Revenue Code of 1986 (26
20 U.S.C. 529(e)), title to all amounts in such account attrib-
21 utable to financial assistance provided pursuant to para-
22 graph (1) or (2) shall vest in the grantee providing finan-
23 cial assistance pursuant to paragraph (1) and such amounts
24 shall be paid to such grantee.

25 (i) **LOCAL CONTROL OVER DEMONSTRATION.**—

26 (1) Each grantee shall, subject to the provisions of

subsection (k), have sole responsibility for the administration of demonstration projects approved by the Administrator/Chairperson.

(2) The Administrator/Chairperson may prescribe such regulations as may be necessary to ensure that grantees comply with the terms of approved applications and the requirements of this section.

(j) ANNUAL REPORTS.—

(1) **IN GENERAL.**—Each grantee shall annually report to the Administrator/Chairperson concerning the progress of each approved demonstration project administered by such grantee. The report shall, at a minimum—

(A) describe project participants;

(B) contain an audited financial statement for the reserve fund established with respect to the project;

(C) provide information on amounts deposited in individual development accounts of project participants to whom such assistance is provided under the project; and

(D) such other information as the Administrator/Chairperson may require with respect to the evaluation of the project pursuant to subsection (l).

(2) **SUBMISSION.**—Reports required by paragraph (1) shall be submitted annually not later than the anniversary of the date the Administrator/Chairperson approved the application for the demonstration project.

1 (3) **COORDINATION WITH STATE GOVERNMENT.**—A grantee
2 shall transmit a copy of each report required by paragraph
3 (1) to the Treasurer (or equivalent official) of the State
4 in which the project is conducted at the time prescribed by
5 paragraph (2).

6 (k) **SANCTIONS.**—

7 (1) **REVOCATION OF DEMONSTRATION AUTHORITY.**—If the
8 Administrator/Chairperson determines a grantee is not con-
9 ducting a demonstration project in accordance with the
10 approved application and the requirements of this section,
11 and has failed to undertake corrective action satisfactory
12 to the Administrator/Chairperson, the Administra-
13 tor/Chairperson may revoke the approval to conduct the
14 project. A determination by the Administrator/Chairperson
15 to revoke the approval for a demonstration project shall not
16 be subject to review by any court.

17 (2) **ACTIONS REQUIRED UPON REVOCATION.**—

18 (A) If the Administrator/Chairperson revokes
19 approval to conduct a demonstration project pursuant to
20 paragraph (1), the Administrator/Chairperson—

21 (i) shall suspend the project;

22 (ii) shall take control of the reserve fund
23 established pursuant to subsection (f) with re-
24 spect to such project; and

25 (iii) shall solicit applications from enti-
26 ties described in subsection (a) to conduct the

1 suspended project in accordance with the approved
2 application (or under such terms and conditions as
3 the Administrator may prescribe) and the require-
4 ments of this section.

5 (B) If the Administrator/Chairperson approves an appli-
6 cation to conduct the suspended project, the Administra-
7 tor/Chairperson shall transfer to the new grantee control of
8 the reserve fund established pursuant to subsection (f) for
9 the project, and such grantee shall be considered to be the
10 original grantee for purposes of this section. The date the
11 Administrator/Chairperson approved the application of the
12 new grantee to conduct the suspended project shall apply for
13 purposes of the annual reports required by subsection (j).

14 (C) If the Administrator/Chairperson has not approved
15 an application to conduct a project by the date that is one
16 year after approval to conduct the project was revoked, the
17 Administrator/Chairperson shall—

18 (i) terminate the project; and

19 (ii) distribute remaining amounts in the reserve
20 fund for such project and investments made from amounts
21 in the reserve fund in accordance with the provisions
22 of subsection (f)(6).

23 (1) **PROJECT EVALUATIONS.—**

24 (1) **IN GENERAL.—**Not later than six months after the
25 date of enactment of this Act, the Administra-
26 tor/Chairperson, in consultation with the Secretary of the

1 Treasury and the Secretary of the Department of Health and
2 Human Services, shall enter into a contract with an indepen-
3 dent organization (hereinafter "evaluator") for the evalua-
4 tion of individual demonstration projects conducted pursuant
5 to this section and the effectiveness of assistance provided
6 to eligible persons pursuant to this section.

7 (2) **EVALUATIONS.**—In entering into the contract provid-
8 ed for in paragraph (1), the Administrator/Chairperson
9 should consider providing for evaluation of—

10 (A) the types of information and public education
11 efforts that attract project participants;

12 (B) the accessibility of the demonstration project
13 by participants and the ease of participation;

14 (C) the level of financial assistance required to
15 stimulate participation in the demonstration project,
16 and whether such level varies among different demo-
17 graphic populations;

18 (D) whether project features utilized in conjunc-
19 tion with individual development accounts (such as peer
20 support, structured planning exercises, mentoring, and
21 case management) contribute to participation in the
22 project;

23 (E) the level of self-sufficiency achieved by
24 project participants as measured by employment or self-
25 employment rates, earned and investment income, exit
26 rates, poverty rates, and recidivism rates, particular-

1 ly for program participants eligible for food stamp
2 benefits and AFDC;

3 (F) the reduction in the level of public expen-
4 diture on project participants as measured by changes
5 in overall support payments including AFDC, food stamp
6 benefits, Federal child care assistance, Federal hous-
7 ing assistance, JOBS, and other benefits, taking into
8 account costs incurred by the Federal Government in
9 support of demonstration projects;

10 (G) the level of asset accumulation by project
11 participants as measured by savings rates, net worth,
12 business start-ups, human capital investments, new
13 homes, number of loans to low-income and AFDC eligible
14 families, and whether asset accumulation continued
15 after a subsidy or other assistance;

16 (H) the economic, psychological, and social ef-
17 fects of asset accumulation; and

18 (I) the circumstances concerning and the extent to
19 which asset accumulation by project participants con-
20 tributes to—

21 (i) a greater sense of security and control
22 and positive outlook;

23 (ii) greater household stability;

24 (iii) increased long-term planning;

25 (iv) increased efforts to maintain and devel-
26 op assets;

(v) greater knowledge about savings, investments, and other financial matters;

(vi) increased effort and success in educational achievement within the household;

(vii) increased specialization in career development;

(viii) improved social status;

(ix) increased political participation;

(x) increased community involvement;

(xi) increased earned income;

(xii) decreased reliance on traditional forms of public assistance, with particular emphasis on food stamp benefits and AFDC; and

(xiii) increased tendency to save during and after the period of project participation.

(3) **METHODOLOGICAL REQUIREMENTS.**—In evaluating any demonstration project conducted under this section, the evaluator should obtain such quantitative data before, during, and after the project, as is necessary to evaluate the project.

(m) **DEFINITIONS.**—As used in this section:

(1) **HOUSEHOLD.**—The term "household" means all individuals who share use of a dwelling unit as primary quarters for living and eating separately from other individuals.

(3) **NET WORTH.**—

(A) **IN GENERAL.**—Except as provided in subpara-

graph (B), the term "net worth" means, with respect to a household, the aggregate fair market value of all assets that are owned in whole or in part by any member of the household, less the obligations or debts of any member of the household.

(B) **ASSETS EXCLUDED.**—Net worth shall be determined without taking into account the fair market value and the obligations or debts of—

(i) the primary dwelling unit of the household;

(ii) the motor vehicle having the greatest equity value; and

(iii) items essential for daily living, such as clothes, furniture, and similar items of limited value.

(4) **INDIVIDUAL DEVELOPMENT ACCOUNT.**—The term "individual development account" shall have the same meaning given such term in section 529 of the Internal Revenue Code of 1986 (26 U.S.C. 529).

(5) **PROJECT YEAR.**—The term "project year" means with respect to a demonstration project, any of the five consecutive 12-month periods beginning on the date the project is approved by the Administrator.

(6) **QUALIFIED ORGANIZATION.**—The term "qualified organization" means a community development financial institution as defined in section ____ of the Community Development

1 Banking and Financial Institutions Act of 1994.

2 (7) **ELIGIBLE PERSON DEFINED.**—The term "eligible per-
3 son" means any person who is a member of a household that
4 meets all of the following requirements:

5 (A) **EITC TEST.**—The household has at least one
6 individual who is an eligible individual within the
7 meaning of section 32(c)(1) of the Internal Revenue
8 Code of 1986 for purposes of the earned income tax
9 credit.

10 (B) **INCOME TEST.**—The household did not have
11 adjusted gross income (as determined pursuant to the
12 Internal Revenue Code of 1986) in the immediately
13 preceding calendar year in excess of \$18,000.

14 (C) **NET WORTH TEST.**—The net worth of the house-
15 hold, as of the close of the immediately preceding
16 calendar year, did not exceed \$20,000.

17 (8) **QUALIFIED EXPENSES.**—The term "qualified expenses"
18 shall have the same meaning as provided in section 529(c)(1)
19 of the Internal Revenue Code of 1986 (26 U.S.C. 529(c)(1)).

20 (n) **AUTHORIZATION OF APPROPRIATIONS.**—To carry out the
21 purposes of this section there are authorized to be appropriated
22 to the Administrator/Chairperson for each of the fiscal years
23 1996, 1997, 1998, 1999, and 2000, \$__,000,000.

24 **SEC. __ 4. INDIVIDUAL DEVELOPMENT ACCOUNTS**

25 (a) **IN GENERAL.**—Subchapter F of chapter 1 of the Internal
26 Revenue Code of 1986 (relating to additional itemized deductions

for individuals) is amended by adding at the end of the following new part:

"PART VIII—INDIVIDUAL DEVELOPMENT ACCOUNTS

"SEC. 529. INDIVIDUAL DEVELOPMENT ACCOUNTS

"(a) ESTABLISHMENT OF ACCOUNTS.—

"(1) IN GENERAL.—An individual development account may be established by or on behalf of an eligible individual for the purpose of accumulating funds to pay the qualified expenses of such individual.

"(2) ELIGIBLE INDIVIDUAL.—The term 'eligible individual' means an individual—

"(A) for whom assistance is provided under section 3(h) of the Individual Development Account Demonstration Act;

"(B) receiving assistance under 42 U.S.C. 601 et seq.; or

"(C) receiving assistance under 7 U.S.C. 2011 et seq.

"(b) LIMITATIONS.—

"(1) ACCOUNT TO BENEFIT ONE INDIVIDUAL.—An individual development account may not be established for the benefit of more than one individual.

"(2) MULTIPLE ACCOUNTS.—If, at any time during a calendar year, two or more individual development accounts are maintained for the benefit of an eligible individual, such individual shall be treated as an eligible individual

1 for such year only with respect to the account first estab-
2 lished.

3 "(3) **ANNUAL LIMIT.**—Contributions to an individual
4 development account by an eligible individual for any tax-
5 able year shall not exceed the lesser of \$2,000 or 100% of
6 earned income within the meaning of section 32(c)(2). No
7 contribution to the account under section 3(h) of the Indi-
8 vidual Development Account Demonstration Act shall be taken
9 into account for the purposes of this paragraph.

10 "(c) **DEFINITIONS AND SPECIAL RULES.**—For the purposes of
11 this section—

12 "(1) **QUALIFIED EXPENSES.**—The term 'qualified expenses'
13 means one or more of the following, as provided by the
14 entity providing assistance to the eligible individual under
15 section 3(h) of the Individual Development Account Demon-
16 stration Act:

17 "(A) **POST-SECONDARY EDUCATION EXPENSES.**—Post-
18 secondary educational expenses paid from an individual
19 development account directly to an eligible educational
20 institution. For the purposes of this subparagraph—

21 "(i) the term 'post-secondary educational
22 expenses' means—

23 "(I) tuition and fees required for the
24 enrollment or attendance of a student at an
25 eligible educational institution;

26 "(II) fees, books, supplies, and equip-

1 ment required for courses of instruction at
2 an eligible educational institution; and

3 "(III) a reasonable allowance for meals,
4 lodging, transportation, and child care,
5 while attending an eligible educational in-
6 stitution; and

7 "(ii) the term 'eligible educational institu-
8 tion' means—

9 "(I) an institution described in section
10 481(a)(1) or 1201(a) of the Higher Education
11 Act of 1965 (20 U.S.C. 1088(a)(1) or
12 1141(a)), as such sections are in effect on
13 the date of the enactment of this section;
14 and

15 "(II) an area vocational education
16 school (as defined in subparagraph (C) or (D)
17 of section 521(4) of the Carl D. Perkins Vo-
18 cational and Applied Technology Act (20
19 U.S.C. 2471 (4))) in any State (as defined in
20 section 521(33) of such Act), as such section
21 is in effect on the date of the enactment of
22 this section.

23 **"(B) FIRST-HOME PURCHASE.**—Qualified acquisition
24 costs with respect to a qualified principal residence
25 for a qualified first-time homebuyer, if paid from an
26 individual development account directly to the persons

1 to whom the amounts are due. For purposes of this sub-
2 paragraph—

3 "(i) the term `qualified acquisition costs'
4 means the costs of acquiring, constructing, or
5 reconstructing a residence, and includes any usual
6 or reasonable settlement, financing, or other
7 closing costs;

8 "(ii) the term `qualified principal resi-
9 dence' means a principal residence (within the
10 meaning of section 1034), the qualified acquisi-
11 tion costs of which do not exceed 80 percent of
12 the average area purchase price applicable to such
13 residence (determined in accordance with para-
14 graphs (2) and (3) of section 143(e));

15 "(iii) the term `qualified first-time home-
16 buyer' means a taxpayer (and, if married, the tax-
17 payer's spouse) who has no present ownership in-
18 terest in a principal residence during the three-
19 year period ending on the date on which a binding
20 contract was entered into to acquire, construct,
21 or reconstruct the principal residence to which
22 this subparagraph applies.

23 "(C) **BUSINESS CAPITALIZATION.**—Amounts paid from
24 an individual development account directly into a
25 business capitalization account which is established in
26 a federally insured financial institution and is re-

1 stricted to use solely for qualified business capi-
2 talization expenses. For purposes of this subpara-
3 graph—

4 "(i) the term `qualified business capital-
5 ization expenses' means qualified expenditures for
6 the capitalization of a qualified business pursu-
7 ant to a qualified plan;

8 "(ii) the term `qualified expenditures' means
9 expenditures included in a qualified plan, includ-
10 ing capital, plant, equipment, working capital,
11 and inventory expenses;

12 "(iii) the term `qualified business' means
13 any business that does not contravene any law or
14 public policy (as determined by the Administrator
15 of the Community Development Bank and Financial
16 Institutions Fund);

17 "(iv) the term `qualified plan' means a busi-
18 ness plan—

19 "(I) that is approved by a financial
20 institution, or any other institution desig-
21 nated as a community development financial
22 institution, having demonstrated fiduciary
23 integrity;

24 "(II) that includes a description of
25 services or goods to be sold, a marketing
26 plan, and projected financial statements; and

1 "(III) that may require the eligible
2 individual to obtain assistance of an experi-
3 enced entrepreneurial advisor.

4 **"(D) TRANSFERS TO IDAs OF FAMILY MEMBERS.**—Amounts
5 in an individual development account may be paid or
6 transferred directly into another such account estab-
7 lished for the benefit of an eligible individual who
8 is—

9 "(i) the taxpayer's spouse; or

10 "(ii) any dependent of the taxpayer with
11 respect to whom the taxpayer is allowed a deduc-
12 tion under section 151.

13 **"(2) INDIVIDUAL DEVELOPMENT ACCOUNT.**—The term 'indivi-
14 dual development account' means a trust created or organized
15 in the United States exclusively for the purpose of paying
16 the qualified expenses of an eligible individual, but only
17 if the written instrument creating the trust meets the
18 following requirements:

19 **"(A)** No contribution will be accepted unless it is
20 in cash or check.

21 **"(B)** The trustee is a financial institution in-
22 sured by an instrumentality of the Federal Government.

23 **"(C)** The assets of the account will be invested
24 only in federally insured deposits and/or stock of a
25 regulated investment company within the meaning of
26 section 851(a), in accordance with the direction of the

1 eligible individual.

2 "(D) The assets of the trust will not be commin-
3 gled with other property except in a common trust fund
4 or common investment fund.

5 "(E) Except as provided in subparagraph (F), any
6 amount in the account which is attributable to assis-
7 tance provided under section 3(h) of the Individual
8 Development Account Demonstration Act may be paid or
9 distributed out of the account only for the purpose of
10 paying the qualified expenses of the eligible individu-
11 al.

12 "(F) (i) Any balance in the account on the day
13 after the date on which the individual for whose bene-
14 fit the trust is established dies will be transferred
15 within 60 days of such date as directed by such indi-
16 vidual to another individual development account estab-
17 lished for the benefit of an individual who is a family
18 member described in subsection (c)(1)(D) and who is an
19 eligible individual, or who was an eligible individual
20 on the day immediately preceding the date on which the
21 individual for whose benefit the trust is established
22 dies.

23 "(ii) In any case where clause (i) does not apply,
24 the portion of the account attributable to contribu-
25 tions other than those provided under section 3(h) of
26 the Individual Development Account Demonstration Act

1 shall be paid out within five years of the date of
2 death to the beneficiaries of the individual for whose
3 benefit the account was established, and the balance
4 shall be transferred within 60 days of the day after
5 the date of death to another individual development
6 account established for the benefit of an eligible
7 individual who may be designated by the individual for
8 whose benefit the account was established.

9 **"(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—**A taxpayer
10 shall be deemed to have made a contribution to an individual
11 development account on the last day of the preceding taxable
12 year if the contribution is made on account of such taxable
13 year and is made not later than the time prescribed by law
14 for filing the return for such taxable year (not including
15 extensions thereof).

16 **"(d) TAX TREATMENT OF DISTRIBUTIONS.—**

17 **"(1) IN GENERAL.—**Except as otherwise provided in this
18 subsection, any amount paid or distributed out of an indi-
19 vidual development account shall be included in gross income
20 of the payee or distributee for the taxable year in the
21 manner provided in section 72.

22 **"(2) TREATMENT OF ASSISTANCE CONTRIBUTIONS.—**

23 **"(A) DISTRIBUTIONS USED TO PAY QUALIFIED EXPENS-**
24 **ES.—**If a distribution or payment from an individual
25 development account is used exclusively to pay the
26 qualified expenses incurred by the individual for whose

benefit the account is established, then, for purposes of section 72, assistance contributions made to such individual development account under section 3(h) of the Individual Development Account Demonstration Act shall be treated in the same manner as contributions made by the eligible individual.

"(B) DISTRIBUTIONS NOT USED TO PAY QUALIFIED EXPENSES.—If a distribution or payment from an individual development account is not used exclusively to pay the qualified expenses incurred by the individual for whose benefit the account is established, then, for purposes of section 72, assistance contributions made to such individual development account under section 3(h) of the Individual Development Account Demonstration Act shall be treated in the same manner as earnings on the account.

"(e) TAX TREATMENT OF ACCOUNTS.—

"(1) EXEMPTION FROM TAX.—An individual development account is exempt from taxation under this subtitle unless such account has ceased to be an individual development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

"(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL

ENGAGES IN PROHIBITED TRANSACTION.—

"(A) **IN GENERAL.**—If the individual for whose benefit an individual development account is established or any individual who contributes to such account engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be an individual development account as of the first day of the taxable year (of the individual so engaging in such transaction) during which such transaction occurs.

"(B) **ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS.**—In any case in which any account ceases to be an individual development account by reason of subparagraph (A) as of the first day of any taxable year—

"(i) all assets in the account on such first day that are attributable to assistance provided under section 3(h)(1) and (2) of the Individual Development Account Demonstration Act shall be paid as provided in section 3(h)(5) of such Act; and

"(ii) the provisions of subsection (d)(1) shall apply as if there was a distribution on such first day in an amount equal to the fair market value of all other assets in the account on such first day.

"(3) **EFFECT OF PLEDGING ACCOUNT AS SECURITY.**—If,

1 during any taxable year, the individual for whose benefit an
2 individual development account is established, or any indi-
3 vidual who contributes to such account, uses the account or
4 any portion thereof as security for a loan—

5 "(A) an amount equal to the part of the portion so
6 used which is attributable to assistance provided under
7 section 3(h)(1) and (2) of the Individual Account
8 Demonstration Act shall be paid as provided in section
9 3(h)(5) of such Act; and

10 "(B) the remaining part of the portion so used
11 shall be treated as distributed under the provisions of
12 subsection (d)(1) to the individual so using such
13 portion.

14 **"(f) ADDITIONAL TAX ON CERTAIN AMOUNTS INCLUDED IN GROSS**
15 **INCOME.—**

16 **"(1) DISTRIBUTION NOT USED FOR QUALIFIED EXPENSES.—**In
17 the case of any payment or distribution that is not used
18 exclusively to pay qualified expenses incurred by the eligi-
19 ble individual for whose benefit the account is established,
20 the tax liability of each payee or distributee under this
21 chapter for the taxable year in which the payment or distri-
22 bution is received shall be increased by an amount equal to
23 10 percent of the amount of the distribution that is includ-
24 ed in the gross income of such payee or distributee for such
25 taxable year.

26 **"(2) DISQUALIFICATION CASES.—**If any amount includible

1 in the gross income of an individual for a taxable year
2 because such amount is required to be treated as a distribu-
3 tion under paragraph (2) or (3) of subsection (e), the tax
4 liability of such individual under this chapter for such
5 taxable year shall be increased by an amount equal to 10
6 percent of such amount required to be treated as a distribu-
7 tion and included in the gross income of such individual.

8 "(3) **DISABILITY OR DEATH CASES.**—Paragraphs (1) and (2)
9 shall not apply if the payment or distribution is made after
10 the individual for whose benefit the individual development
11 account becomes disabled within the meaning of section
12 72(m)(7) or dies.

13 "(g) **COMMUNITY PROPERTY LAWS.**—This section shall be applied
14 without regard to any community property laws.

15 "(h) **CUSTODIAL ACCOUNTS.**—For purposes of this section, a
16 custodial account shall be treated as a trust if the assets of
17 such account are held by a bank (as defined in section 408(n)) or
18 another person who demonstrates, to the satisfaction of the
19 Administrator of the Community Development Bank and Financial
20 Institutions Fund, that the manner in which he will administer
21 the account will be consistent with the requirements of this
22 section, and if the custodial account would, except for the fact
23 that it is not a trust, constitute an individual development
24 account described in subsection (c)(2). For purposes of this
25 title, in the case of a custodial account treated as a trust by
26 reason of the preceding sentence, the custodian of such account

1 shall be treated as the trustee thereof.

2 "(i) **REPORTS.**—The trustee of an individual development
3 account shall—

4 "(1) prepare reports regarding the account with respect
5 to contributions, distributions, and any other matter re-
6 quired by the Administrator of the Community Development
7 Bank and Financial Institutions Fund under regulations; and

8 "(2) submit such reports, at the time and in the
9 manner prescribed by the Administrator of the Community
10 Development Bank and Financial Institutions Fund in
11 regulations, to—

12 "(A) the individual for whose benefit the account
13 is maintained;

14 "(B) the organization providing assistance to the
15 individual under section 3(h) of the Individual Account
16 Demonstration Act; and

17 "(C) the Administrator of the Community Develop-
18 ment Bank and Financial Institutions Fund.".

19 (b) **CONTRIBUTION NOT SUBJECT TO THE GIFT TAX.**—Section 2503
20 of the Internal Revenue Code of 1986 (26 U.S.C. 2503) (relating
21 to taxable gifts) is amended by adding at the end thereof the
22 following new subsection:

23 "(h) **INDIVIDUAL DEVELOPMENT ACCOUNTS.**—Any contribution
24 made by an individual to an individual development account
25 described in section 529(c)(2) shall not be treated as a
26 transfer of property by gift for purposes of this chapter.".

1 (c) **TAX ON PROHIBITED TRANSACTIONS.**—Section 4975 of the
2 Internal Revenue Code of 1986 (26 U.S.C. 4975) (relating to
3 prohibited transactions) is amended—

4 (1) by adding at the end of subsection (c) the follow-
5 ing new paragraph:

6 "(4) **SPECIAL RULE FOR INDIVIDUAL DEVELOPMENT AC-**
7 **COUNTS.**—An individual for whose benefit an individual
8 development account is established and any contributor
9 to such account shall be exempt from tax imposed by
10 this section with respect to any transaction concerning
11 such account (which would otherwise be taxable under
12 this section) if, with respect to such transaction, the
13 account ceases to be an individual development account
14 by reason of section 529(e)(2)(A) to such account.";
15 and

16 (2) in subsection (e)(1), by inserting ", an individual
17 development account described in section 529(c)(2)" after
18 "section 408(a)".

19 (d) **FAILURE TO PROVIDE REPORTS ON INDIVIDUAL DEVELOPMENT**
20 **ACCOUNTS.**—Section 6693 of the Internal Revenue Code of 1986 (26
21 U.S.C. 6693) (relating to failure to provide reports on individu-
22 al retirement accounts or annuities) is amended—

23 (1) in the heading of such section, by inserting "**OR ON**
24 **INDIVIDUAL DEVELOPMENT ACCOUNTS**" after "**ANNUITIES**"; and

25 (2) by adding at the end of subsection (a) the follow-
26 ing new sentence: "The person required by section 529(i) to

1 . file a report regarding an individual development account at
 2 the time and in the manner required by such section shall
 3 pay a penalty of \$50 for each failure, unless it is shown
 4 that such failure is due to reasonable cause.".

5 (e) **SPECIAL RULE FOR DETERMINING AMOUNTS OF SUPPORT FOR**
 6 **DEPENDENT.**—Section 152(b) of the Internal Revenue Code of 1986
 7 (26 U.S.C. 152(b)) (relating to definition of dependent) is
 8 amended by adding at the end the following new paragraph:

9 "(6) A distribution from an individual development
 10 account described in section 529(c)(2) used exclusively to
 11 pay qualified expenses described in section 529(c)(1) of the
 12 individual for whose benefit the account is established
 13 shall not be taken into account in determining support for
 14 such individual for purposes of this section.".

15 (f) **CLERICAL AMENDMENTS.**—

16 (1) The table of parts for subchapter F of chapter
 17 1 of such Code is amended by inserting at the end the
 18 following new item:

19 "Part VIII. Individual Development Accounts.".

20 (2) The table of sections for subchapter B of chapter
 21 68 of such Code is amended by amending the item relating to
 22 section 6693 to read as follows:

23 "Sec. 6693. Failure to provide reports on individual devel-
 24 opment accounts or annuities or on individual
 25 development accounts.".

26 (g) **EFFECTIVE DATE.**—The amendments made by this section

1 shall apply to contributions made after the enactment of the Act.

2

SELF EMPLOYMENT/MICROENTERPRISE DEMONSTRATION
Legislative Language

**SEC. ____ . DEMONSTRATION PROGRAM TO PROVIDE SELF-EMPLOYMENT
OPPORTUNITIES TO WELFARE RECIPIENTS AND LOW-INCOME
INDIVIDUALS.**

(a) **IN GENERAL.**--The Secretary of Health and Human Services (hereinafter in this section referred to as the "Secretary") and the Administrator of the Small Business Administration (hereinafter in this section referred to as the "Administrator"), shall jointly develop a self-employment/microenterprise demonstration program for at least five years in length that will build on the experience of microenterprise and self-employment programs previously carried out by the Federal Government and other entities. The program shall be designed--

(1) to identify regulatory and other barriers that prevent welfare recipients and low-income individuals from increasing self-sufficiency through self-employment and microenterprise development, and to identify and test effective means to eliminate such barriers;

(2) to develop and evaluate promising program models, based upon existing effective practices, which have the potential to (A) increase the number of welfare recipients and low-income individuals who become self-sufficient or increase self-sufficiency through self-employment and microenterprise development and (B) reduce Federal spending on transfer payments and services to welfare recipients and low-income individuals; and

(3) to demonstrate the potential for expanding the capacity of local organizations to provide services, technical assistance and loans which help welfare recipients and low-income individuals start or expand self-employment or microenterprises.

(b) **USE OF INTERMEDIARIES.**--To carry out such program, the Secretary and Administrator shall jointly enter into agreements with local intermediaries that--

(1) apply to participate in such program, and

(2) demonstrate that they are capable of implementing the provisions of the agreement.

(c) **PROGRAM DESIGN.**--In order to facilitate a randomized evaluation, as provided for in subsection (i)(1) below, the Secretary and Administrator shall identify those predominate and effective program models currently used by existing intermediaries to provide self-employment and related services to low-income individuals, and shall design the demonstration program in order to evaluate at least two distinct types of program models with contrasting levels of technical assistance. In designing the demonstration program, the Secretary and Administrator shall consult with appropriate parties, such as--

(1) state and local agencies and private, nonprofit organizations with experience in administering self-employment programs that serve low-income individuals; and

(2) other persons with recognized expertise in conducting randomized evaluations of self-employment programs or other related programs.

(d) ASSISTANCE TO INTERMEDIARIES.--

(1) **IN GENERAL.--**To carry out the program, the Secretary and Administrator may provide the following assistance to intermediaries selected to participate in the program--

(A) grants for providing technical assistance to eligible individuals, for operating costs and for costs associated with participating in the evaluation provided for in subsection (i)(1) below;

(B) loans guarantees; and

(C) loans.

(2) **TECHNICAL ASSISTANCE TO INTERMEDIARIES.--**The Secretary and Administrator may provide grants to intermediaries or third-party technical assistance providers for the provision of technical assistance to intermediaries selected to participate in this program.

(3) **TERMINATION OF ASSISTANCE.--**Assistance awarded pursuant to this section may fully fund project periods of up to five years. The Secretary and Administrator may revoke, terminate or reduce assistance to an intermediary if the intermediary fails to comply with the terms of any agreement it enters into with the Secretary and Administrator.

(e) SELECTION OF INTERMEDIARIES.--

(1) IN GENERAL.--In determining whether to enter into an agreement with an intermediary under this section, the Secretary and Administrator shall take into consideration--

(A) the intermediary's record of success in serving low-income individuals;

(B) the intermediary's record of success in providing technical assistance or loans to low-income individuals for the purpose of self-employment;

(C) the nature, types, and costs of technical assistance and/or lending methods the intermediary will employ in serving the target population;

(D) the intermediary's ability to obtain matching funds from private sources; and

(E) such other matters as the Secretary and Administrator deem appropriate.

(2) ADDITIONAL PROGRAMS.--In addition to the demonstration program provided for in subsection (c) above, the Secretary and Administrator may select up to five intermediaries that would employ program models that would operate independently of the randomized evaluation provided for in subsection (i)(1) below, where such program models demonstrate promising, innovative strategies that could not readily be evaluated by a randomized experimental design.

(f) **ELIGIBLE INDIVIDUALS.**--An individual eligible to participate in a program conducted under this section is any low-income individual or welfare recipient. The Secretary and Administrator shall ensure that an appropriate minimum percentage of welfare recipients will participate in each demonstration program funded under this section.

(g) **PROVISIONS OF AGREEMENTS.**--Any agreement entered into with an intermediary under this section shall provide that--

(1) the intermediary has or will have an agreement with the local agency responsible for administering the job opportunities and basic skills training program (as provided for under title IV of the Social Security Act) (hereinafter in this section referred to as the "JOBS" programs) and the Work Program (as provided for under title ____ of this Act) such that JOBS and Work program funds will be used to provide support services, including training and technical assistance, to participants in the demonstration programs funded under this section;

(2) the intermediary will implement a program that is approved by the Secretary and Administrator;

(3) the intermediary will cooperate with any independent evaluator(s) selected pursuant to subsection (i); and

(4) the intermediary will meet any other obligations required by the Secretary and Administrator, including any fund matching requirements.

(h) PROGRAM ADMINISTRATION.--

(1) IN GENERAL.--The Secretary and Administrator shall enter into a memorandum of understanding for the joint administration of the demonstration programs provided for by this section. The designation of intermediaries to participate in the program shall be completed no later than 12 months after the date of appropriation of funds for this Act.

(2) COORDINATION WITH OTHER AGENCIES.--The Secretary and Administrator shall also coordinate and consult with the Secretaries of the Department of Agriculture, the Department of Housing and Urban Development, and the Department of Labor, on regulatory or other reforms or coordinated efforts by such agencies that may further eliminate barriers to self-employment and legitimize microenterprise development by low-income individuals and welfare recipients.

(i) EVALUATION AND REPORT.--

(1) IN GENERAL.--The Secretary, in consultation with the Administrator, shall conduct or provide for an evaluation of the effectiveness of the demonstration program provided for in subsection (c) above and shall prepare and submit to the President and Congress a preliminary report of the evaluation no later than three years following the designation of intermediaries and a final report no later than seven years following such designation, together with

such recommendations, including recommendations for legislation, as the Secretary and Administrator deem appropriate. Such evaluation shall be based on an experimental design with random assignment between a treatment group and a control group. In designing the evaluation, the Secretary shall consider testing for--

(A) greater self-sufficiency as measured by employment and self-employment rates, amount of earned income, poverty rates, and exit and recidivism rates for Aid to Families With Dependent Children (hereinafter in this section referred to as "AFDC"), Food Stamps and other public assistance programs;

(B) reduced costs of public support as measured by changes in overall support payments for items such as income maintenance, food, child care, health care, housing, job training and other benefits;

(C) number of businesses and jobs created, number of loans to welfare recipients and low-income individuals, repayment rates for loans, and business performance after welfare or other public assistance ends;

(D) the relative effectiveness, cost-to-benefit ratio, and degree of financial self-sufficiency of the different program models employed by the intermediaries participating in the demonstration program;

(E) the program's impact and effectiveness in serving participants in a time-limited welfare system, as

compared to other low-income individuals; and

(F) the effectiveness and cost-to-benefit ratio of any modifications effected under section(s) ___ of this Act [**liberalizations of the income, resource or business asset disregard rules relevant to microenterprise**] in helping welfare recipients and low-income individuals in both the control and treatment groups become self-employed.

(2) **EVALUATION OF ADDITIONAL PROGRAMS.**--The Secretary, in consultation with the Administrator, shall also conduct or provide for an independent evaluation of the effectiveness of any program models selected pursuant to subsection (e)(2) above and shall prepare and submit to the President and Congress a preliminary report of the evaluation no later than three years following the designation of intermediaries, and a final report no later than five years following such designation, together with such recommendations, including recommendations for legislation, as the Secretary and Administrator deem appropriate.

(3) **PRELIMINARY REPORTS TO CONGRESS.**--The preliminary reports provided for in paragraphs (1) and (2) of this subsection shall include an analysis of any regulatory or other barriers that prevent welfare recipients and low-

income individuals from becoming self-sufficient through self-employment and microenterprise development.

(4) **REQUIRED INFORMATION.**--The Secretary may require each intermediary selected pursuant to this section to provide the Secretary with such information as the Secretary determines is necessary to carrying out the duties of this subsection.

(5) **EARLY AND REGULAR INFORMATION SHARING WITH INTERMEDIARIES.**--The Secretary, in consultation with the Administrator, shall provide early and regular feedback and summaries to intermediaries selected to participate pursuant to this section of the progress of the evaluation, the data collected during the evaluation, preliminary findings and such other information as the Secretary deems appropriate. The Secretary shall provide such feedback and summaries at least once a year for the life of the demonstration.

(j) **AUTHORIZATION OF APPROPRIATIONS.**--To carry out the purposes of this section there are authorized to be appropriated to the Secretary and Administrator \$__,000,000 for each of the fiscal years 1995, 1996, 1997, 1998, and 1999.

(k) **DEFINITIONS.**--For the purposes of this section--

(1) the term "intermediary" means an organization,

partnership, or consortium of organizations that acts as a lender and/or as a technical assistance provider to individuals who wish to start or expand a microenterprise;

(2) the term "low-income individual" means an individual whose income level does not exceed 130 percent of the official poverty line as defined by the Office of Management and Budget;

(3) the term "microenterprise" generally means a business that has a net worth of less than \$15,000;

(4) the term "technical assistance" as it relates to assisting a welfare recipient or low-income individual to become self-employed includes business technical assistance, entrepreneurial training, and/or personal development services; and

(5) the term "welfare recipient" means a participant in a time-limited welfare program who is also participating in the JOBS or Work program or a person who is receiving assistance from AFDC.