

109TH CONGRESS
1ST SESSION

H. R. 2063

To amend the Internal Revenue Code of 1986 to permit one-time, tax-free distributions from retirement plans to fund health savings accounts.

IN THE HOUSE OF REPRESENTATIVES

MAY 3, 2005

Mr. SHUSTER introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to permit one-time, tax-free distributions from retirement plans to fund health savings accounts.

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

3 **SECTION 1. ONE-TIME DISTRIBUTION FROM RETIREMENT**
4 **PLANS TO FUND HEALTH SAVINGS AC-**
5 **COUNTS.**

6 (a) IN GENERAL.—Section 402 of the Internal Rev-
7 enue Code of 1986 (relating to taxability of beneficiary
8 of employees' trust) is amended by adding at the end the
9 following new subsection:

10 “(1) HSA FUNDING DISTRIBUTION.—

1 “(1) IN GENERAL.—In the case of an employee
2 who is an eligible individual and who elects the ap-
3 plication of this subsection for a taxable year, gross
4 income of the employee for the taxable year does not
5 include a qualified HSA funding distribution.

6 “(2) QUALIFIED HSA FUNDING DISTRIBUTION.—For purposes of this subsection, the term
7 ‘qualified HSA funding distribution’ means a dis-
8 tribution from an eligible retirement plan of the em-
9 ployee to the extent that such distribution is contrib-
10 uted to the health savings account of the employee
11 not later than the 60th day after the day on which
12 the employee receives such distribution or in a direct
13 trustee-to-trustee transfer.
14

15 “(3) LIMITATION.—

16 “(A) MAXIMUM DOLLAR LIMITATIONS
17 BASED ON COVERAGE IN EFFECT AT TIME OF
18 CONTRIBUTION.—The amount excluded from
19 gross income by paragraph (1) shall not ex-
20 ceed—

21 “(i) in the case of an individual who
22 has self-only coverage under a high deduct-
23 ible health plan as of the first day of the
24 month in which the qualified HSA funding
25 distribution is contributed to the health

1 savings account of the employee, the lesser
2 of—

3 “(I) the amount specified under
4 clause (i) of section 223(b)(2)(A), or

5 “(II) the amount in effect for the
6 taxable year under clause (ii) of sec-
7 tion 223(b)(2)(A) (determined without
8 regard to paragraphs (3) and (4)(C)
9 of section 223(b)), reduced by any
10 amount contributed to such account
11 for such taxable year before the date
12 of the qualified HSA funding distribu-
13 tion contribution, and

14 “(ii) in the case of an individual who
15 has family coverage under a high deduct-
16 ible health plan as of the first day of the
17 month in which the qualified HSA funding
18 distribution is contributed to the health
19 savings account of the employee, the lesser
20 of—

21 “(I) the amount specified under
22 clause (i) of section 223(b)(2)(B), or

23 “(II) the amount in effect for the
24 taxable year under clause (ii) of sec-
25 tion 223(b)(2)(B) (determined with-

1 out regard to paragraphs (3) and
2 (4)(C) of section 223(b)), reduced by
3 any amount contributed to such ac-
4 count for such taxable year before the
5 date of the qualified HSA funding dis-
6 tribution contribution.

7 “(B) ONE-TIME TRANSFER.—The election
8 under paragraph (1) shall apply to the taxable
9 year for which made and all subsequent taxable
10 years. Such an election, once made, shall be ir-
11 revocable.

12 “(4) DISTRIBUTIONS MUST OTHERWISE BE IN-
13 CLUDIBLE.—

14 “(A) IN GENERAL.—An amount shall be
15 treated as a distribution for purposes of para-
16 graph (1) only to the extent that such amount
17 would be includible in gross income without re-
18 gard to paragraph (1).

19 “(B) APPLICATION OF SECTION 72.—Not-
20 withstanding section 72, in determining the ex-
21 tent to which an amount is treated as a dis-
22 tribution for purposes of subparagraph (A), the
23 aggregate amounts distributed from an eligible
24 retirement plan in a taxable year shall be treat-
25 ed as includible in gross income (without regard

1 to subparagraph (A)) to the extent that such
2 amount does not exceed the aggregate amount
3 which would have been so includible if all
4 amounts distributed from all eligible retirement
5 plans were treated as 1 contract for purposes of
6 determining the inclusion of such distribution
7 under section 72. Proper adjustments shall be
8 made in applying section 72 to other distribu-
9 tions in such taxable year and subsequent tax-
10 able years.

11 “(5) DEFINITIONS.—For purposes of this sub-
12 section—

13 “(A) ELIGIBLE RETIREMENT PLAN.—The
14 term ‘eligible retirement plan’ has the meaning
15 given such term by subsection (c)(8)(B), except
16 that such term shall also include an eligible de-
17 ferred compensation plan maintained by an eli-
18 gible employer described in section
19 457(e)(1)(B).

20 “(B) ELIGIBLE INDIVIDUAL.—The term
21 ‘eligible individual’ has the meaning given such
22 term by section 223(c)(1).

23 “(6) SPECIAL RULES.—For purposes of this
24 subsection—

1 “(A) RELATED PLANS TREATED AS 1.—All
2 eligible retirement plans of an employer shall be
3 treated as a single plan.

4 “(B) SURVIVING SPOUSES, DEPENDENTS,
5 AND ALTERNATE PAYEES.—With respect to an
6 eligible retirement plan of an employer, a sur-
7 viving spouse, a dependent of the surviving
8 spouse, or alternate payee (as defined in section
9 414(p)(8)) of a former employee shall be treat-
10 ed in the same manner as the former em-
11 ployee.”.

12 (b) COORDINATION WITH LIMITATION ON CON-
13 TRIBUTIONS TO HEALTH SAVINGS ACCOUNTS.—Section
14 223(b)(4) of such Code (relating to coordination with
15 other contributions) is amended by striking “and” at the
16 end of subparagraph (A), by striking the period at the
17 end of subparagraph (B) and inserting “, and”, and by
18 inserting after subparagraph (B) the following new sub-
19 paragraph:

20 “(C) the aggregate amount contributed to
21 health savings accounts of such individual for
22 such taxable year under section 402(l) (and
23 such amount shall not be allowed as a deduc-
24 tion under subsection (a)).”.

1 (c) 10-PERCENT PENALTY ON EARLY DISTRIBUTIONS NOT TO APPLY.—Section 72(t)(2)(A) of such Code
2 TIONS NOT TO APPLY.—Section 72(t)(2)(A) of such Code
3 (relating to subsection not to apply to certain distribu-
4 tions) is amended by striking “or” at the end of clause
5 (vi), by striking the period at the end of clause (vii) and
6 inserting “, or”, and by inserting after clause (vii) the fol-
7 lowing new clause:

8 “(viii) a qualified HSA funding dis-
9 tribution (as defined by section 402(l)).”.

10 (d) CONFORMING AMENDMENTS.—

11 (1) Section 401(k)(2)(B)(i) of such Code (relat-
12 ing to cash or deferred arrangements) is amended by
13 striking “or” at the end of subclause (III), by strik-
14 ing “and” at the end of subclause (IV) and inserting
15 “or”, and by inserting after subclause (IV) the fol-
16 lowing new subclause:

17 “(V) the funding of a health sav-
18 ings account under section 402(l),
19 and”.

20 (2) Section 402(c)(4) of such Code (relating to
21 rules applicable to rollovers from exempt trusts) is
22 amended by striking “and” at the end of subpara-
23 graph (B), by striking the period at the end of sub-
24 paragraph (C) and inserting “, and”, and by insert-

1 ing after subparagraph (C) the following new sub-
2 paragraph:

3 “(D) any qualified HSA funding distribu-
4 tion (as defined by subsection (l)).”.

5 (3) Section 403(a) of such Code (relating to
6 taxability of beneficiary under a qualified annuity
7 plan) is amended by inserting after paragraph (1)
8 the following new paragraph:

9 “(2) SPECIAL RULE FOR QUALIFIED HSA FUND-
10 ING DISTRIBUTION.—To the extent provided in sec-
11 tion 402(l), paragraph (1) shall not apply to the
12 amount distributed under the contract which is oth-
13 erwise includible in gross income under this sub-
14 section.”.

15 (4) Section 403(b) of such Code (relating to
16 taxability of beneficiary under annuity purchased by
17 section 501(c)(3) organization or public school) is
18 amended by inserting after paragraph (1) the fol-
19 lowing new paragraph:

20 “(2) SPECIAL RULE FOR QUALIFIED HSA FUND-
21 ING DISTRIBUTION.—To the extent provided in sec-
22 tion 402(l), paragraph (1) shall not apply to the
23 amount distributed under the contract which is oth-
24 erwise includible in gross income under this sub-
25 section.”.

1 (5) Section 457(a) of such Code (relating to
2 year of inclusion in gross income) is amended by
3 adding at the end the following new paragraph:

4 “(3) SPECIAL RULE FOR QUALIFIED HSA FUND-
5 ING DISTRIBUTION.—To the extent provided in sec-
6 tion 402(1), paragraph (1) shall not apply to
7 amounts otherwise includible in gross income under
8 this subsection.”.

9 (e) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to distributions in taxable years
11 beginning after December 31, 2004.

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