To pay for highways, legislator eyes inherited IRA taxes

By Editor Test *Mon, Feb 13, 2012*

EBRI suggests that retirement savings-related tax breaks are tempting targets for an administration in search of stimulus money.

Some of the funds for The Highway Investment, Job Creation and Economic Growth Act of 2012 (now in the Senate Finance Committee) may come from requiring certain beneficiaries of IRA distributions to pay their taxes sooner, according to a recent blogpost by the Employee Benefit Research Institute's Nevil Adams.

"The Senate provision demonstrates how the current budgetary and economic pressures in Congress—particularly in an election year—make the tax treatment of retirement savings a major target for any number of legislative initiatives, including those that have little or nothing to do with retirement," Adams wrote.

The blogpost references a press release last week from Senate Finance Committee Chairman Max Baucus (D-Mont.). The release describes several proposed sources of the revenue for the job-stimulating Highway bill, including $4.648 billion over 10 years from a change in the rules for IRA distributions after the death of the IRA account holder.

Under the proposal, any beneficiary of an IRA account who is not the account holder's spouse, isn't chronically ill or disabled, isn't a minor or someone within 10 years of the account holder's age, would be required pay taxes on the inheritance within five years of the account holder's death.

Currently, stretching the taxable distributions over many years, such as the lifetime of a very young person, is a possible strategy for softening the tax on inherited tax-deferred retirement funds. According to a *Wall Street Journal* article cited by the EBRI, a House version of the highway bill did not draw funds from changing the taxation of IRA distributions.

Other proposed funding sources for the highway bill were:

Additional Transfer to the Highway Trust Fund of Proceeds on Certain Imported Tariffs. The Chairman's Modification would transfer additional tariff revenue to the Highway Trust Fund for such a period as necessary to fully fund the Highway Trust Fund. *This provision would transfer $2.618 billion to the Highway Trust Fund.*

Reverse Morris Trust Transactions. Under current law, taxes are generally imposed on parent corporations where they extract value in excess of basis from their subsidiaries prior to engaging in a tax-free spin-off transaction. The Chairman's Modification would treat distributions of debt securities in a tax-free spin-off transaction in the same manner as distributions of cash or other property. Subject to a transition rule, the provision would apply to exchanges after the date of enactment. *This provision is estimated to raise $244 million over ten years.*

Modification to Provision to Close Black Liquor Loophole (portion of Crapo #1). The Chairman's

Modification would allow taxpayers to claim and carry forward the Section 6426 50-cent per gallon credit but not the Section 40 $1.01 per gallon cellulosic tax credit for black liquor produced prior to January 1, 2010. *This provision is estimated to raise approximately $1.588 billion over ten years.*

Clarify IRS Levy Authority for Funds in a Thrift Savings Plan Account (Hatch #2). The Chairman's Modification would provide that funds in Thrift Savings Plan accounts of federal employees would be subject to legal process by the Internal Revenue Service for payments of delinquent taxes. *This provision is estimated to raise $25 million over ten years.*

Parity for Exclusion from Income for Employer-Provided Mass Transit and Parking Benefits (Schumer, Menendez, Carper, Cardin #1). The Chairman's Modification would extend through 2012 the increase in the monthly exclusion for employer-provided transit and vanpool benefits to that of the exclusion for employer-provided parking benefits. *This provision is estimated to cost $139 million over ten years.*

Bank Qualified Bonds (portion of Bingaman #2). The Chairman's Modification includes a modified version of an amendment that would expand the ability of small issuers to sell bank-qualified bonds from $10 million to $30 million for bonds issued after the date of enactment and before January 1, 2013. *This provision is estimated to cost $356 million over ten years.*

AMT Relief on Private Activity Bonds (Kerry, Menendez #2). The Chairman's Modification would provide alternative minimum tax (AMT) relief to investors in private activity bonds that are issued after the date of enactment and before January 1, 2013. *This provision is estimated to cost $215 million over ten years.*

Transportation and Regional Infrastructure Bonds (TRIPs) (Wyden #1). The Chairman's Modification would create placeholder language that would amend Title 23 of the United States Code to allow state infrastructure banks to issue TRIP bonds, 100 percent of the proceeds of which must be spent on qualifying transportation projects and the term of the bond cannot exceed thirty years. The provision would also allow state infrastructure banks to create TRIP bond accounts, which is where proceeds from TRIPs would be deposited. *The provision does not have a revenue effect.*