

Item	Present Law	President's Proposal	Possible Up
<b>Basis recovery (cont.)</b>		<p><i>Effective dates.</i>—The provisions generally would apply to distributions made after December 31, 1985.</p> <p>However, the repeal of capital gain, 10-year forward averaging, and net unrealized appreciation would be phased in over a 6-year period for individuals who will have attained age 55 before January 1, 1987. During the transition period, 10-year forward averaging calculations would use the present-law rate schedules.</p> <p>In addition, the basis recovery rules applicable to distributions made before the annuity starting date would not apply to benefits accrued prior to January 1, 1986. The repeal of the 3-year basis recovery rule and the modification of the exclusion ratio would not apply to any amount received as an annuity if the annuity was in pay status on January 1, 1986.</p>	<p><i>Effective dates.</i>—Generally the same as the President's proposal, except that no transition rule would be provided with respect to the reordering of the basis recovery rules applicable to distributions before the annuity starting date. In addition, present law would continue to apply to net unrealized appreciation attributable to securities held as of December 31, 1985.</p>
<p><b>ns under qualified plans</b></p> <p><b>Amounts treated as distributions</b></p> <p><b>Repayment period</b></p> <p><b>Interest paid on plan loans</b></p>	<p>Subject to certain exceptions, a loan to a participant from a qualified plan is treated as a taxable distribution of plan benefits. An exception is provided to the extent that the loan, when added to the outstanding balance of all other plan loans, does not exceed the lesser of (1) \$50,000, or (2) the greater of \$10,000 or one-half the participant's accrued benefit.</p> <p>The exception applies only if the loan must, by its terms, be repaid within five years, or within a reasonable period if the loan is used to acquire or improve a personal residence of the participant or family member.</p> <p>Interest paid on a loan from a qualified plan is deductible.</p>	<p>Under the proposal, a loan would be treated as a distribution to the extent that the loan (when added to any outstanding balance) exceeds the lesser of (1) \$50,000, reduced by the highest outstanding loan balance during the prior 12 months, or (2) the greater of \$10,000 or one-half of the employee's accrued benefit.</p> <p>The proposal provides an exception to the five-year repayment period only for those loans applied to the first-time purchase of the participant's principal residence.</p> <p>No provision.</p> <p><i>Effective dates.</i>—The provisions would be effective for amounts received as a loan after December 31, 1985.</p>	<p>Same as the President's proposal.</p> <p>In addition to the President's proposal, require level amortization of a loan over the permissible repayment period.</p> <p>Defer the deduction for interest paid by (1) all employees with respect to loans secured by elective deferrals under a qualified cash or deferred arrangement or tax-sheltered annuity, and (2) key employees with respect to loans from any qualified plan, by denying a deduction for the interest and increasing a participant's basis under the plan by the amount of nondeductible interest paid.</p> <p><i>Effective date.</i>—The modification would be effective for amounts received as a loan after December 31, 1985.</p>

Item	Present Law	President's Proposal	Possible Option
<i>c. Pre-1974 capital gains treatment</i>	A participant may elect to treat the pre-1974 portion of any lump sum distribution as long-term capital gains.	The proposal would repeal the special pre-1974 capital gains treatment.	Generally the same as the President's proposal, effective for distributions received after December 31, 1985.
<i>d. Net unrealized appreciation</i>	<p>If an employee receives a lump sum distribution that includes employer securities, only an amount equal to the plan's basis in the securities is currently includible in income. Recognition of the net unrealized appreciation is deferred until the securities are sold or exchanged.</p> <p>In addition, to the extent any distribution consists of employer securities attributable to employee contributions, recognition of the net unrealized appreciation is deferred until the securities are sold or exchanged.</p>	The proposal would repeal the provisions permitting deferred recognition of net unrealized appreciation.	Generally the same as the President's proposal, except that present law is retained with respect to securities attributable to employee contributions.
<i>e. Constructive receipt</i>	Under a tax-sheltered annuity, unlike a qualified plan, a participant is taxed when benefits are received or made available.	The proposal would tax participants under a tax-sheltered annuity only when benefits are received.	Same as the President's proposal.
<i>f. Basis recovery</i>	<p>Distributions prior to the annuity starting date are treated as being made first out of nontaxable employee contributions and then out of taxable amounts (employer contributions and income).</p> <p>Distributions after the annuity starting date are treated under the following rules:</p> <p>(1) In general, each payment is treated as part a payment of income and part a recovery of employee contributions.</p> <p>(2) Under a special rule, if an individual will receive all employee contributions within the first three years after the annuity starting date, then all distributions are considered a return of employee contributions until the individual's basis has been recovered.</p>	<p>With respect to distributions before the annuity starting date, the proposal would reverse the ordering rules—treating the distributions as being made first out of taxable amounts (employer contributions plus interest) and then out of nontaxable employee contributions.</p> <p>The proposal would repeal the special 3-year basis recovery rule and treat each distribution as part of a payment of income and part as recovery of employee contributions, under modified basis recovery rules.</p>	Same as the President's proposal.