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BAUCUS, GRASSLEY WIN PASSAGE OF TAX RELIEF FOR MILITARY FAMILIES, VETERANS

*Provisions championed by Finance Leaders to help military families
pay for education, purchase a home, save for retirement now head to the
President's desk*

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) today led the Senate in unanimous final passage of H.R. 6081, the Heroes Earnings Assistance and Relief Tax Act (HEART), which will provide more than \$1.2 billion dollars in tax relief to benefit America's veterans and soldiers. The Finance leaders worked closely with House colleagues to combine their own military tax relief bill – the Defenders of Freedom Tax Relief Act of 2007 – with an earlier version of the House's HEART Act. HEART was approved by the House of Representatives on Tuesday. The legislation includes tax cuts for members of the military who are receiving combat pay, saving for retirement, or purchasing their own homes. It also helps civilian employers of military men and women keep jobs available for soldiers who are called to active duty.

“America's military men and women give so much and so freely for their country, and the tax code can do more to reflect America's gratitude for their sacrifice,” said Baucus. **“Military families ought to be able to purchase their own homes, invest in their education and retirement futures, and just have the cash on hand to get their bills paid. Businesses that stand by employees who serve this country deserve a boost, too. On this Memorial Day and every day, it's right to show how much America truly appreciates those who defend our freedom.”**

“Military service makes taxes complicated and sometimes unfair,” Grassley said. **“People shouldn't suffer a tax hit to serve our country. We need to make sure military men and women have fair treatment under the tax code. It's a no-brainer.”**

Final HEART Act provisions, including many originally introduced by Baucus and Grassley in the Defenders of Freedom Act, include:

Tax Fairness for Military Personnel

- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit, a refundable federal income tax credit that puts cash in the hands of low-income working individuals and families.

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- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- A 180-day period for Reservists called to active duty to use unspent funds in a health flexible spending account or cafeteria plan.
- The ability for military families to count most military cash allowances beyond basic pay to be treated as earned income for purposes of determining Supplemental Security Income (SSI) eligibility and benefit amounts, and treat certain housing payments as in-kind support and maintenance.
- Clarification that members of the military who file a joint tax return would be eligible for the stimulus rebate payment even if the spouse does not have a Social Security number.
- A one year extension of parity between mental and physical health benefits.

Honoring our Veterans

- A permanent allowance for all veterans to use qualified mortgage bonds to purchase their homes.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans—such as payments of excess state revenue—as nontaxable gifts.
- The ability for blind, disabled, and aged veterans to disregard state annuity payments when determining Supplemental Security Income eligibility and benefits.

Helping Military Families and Survivors

- The ability for families of Reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer.
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts.

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Helping Businesses Support Military Personnel

- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.
- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.

Other Provisions for Americans Serving Overseas

- A permanent extension of a provision that gives intelligence service employees and Peace Corps volunteers a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home from capital gains tax, which is often necessary due to frequent deployment.
- The ability to disregard allowances paid to all Americorps volunteers for the purpose of determining SSI eligibility and benefit amounts.

The Heroes Earnings Assistance and Relief Tax Act is offset in part with a provision to ensure defense contractors are not sidestepping their tax obligations by going offshore, no matter where in the world they employ workers. This provision will require U.S. employers doing federal contract work for the U.S. government, and using foreign subsidiaries to compensate their U.S. employees working abroad, to begin paying Social Security and Medicare taxes on behalf of these employees. The provision will insure defense contractors in Iraq, Afghanistan and elsewhere meet their legal obligation to pay payroll taxes on behalf of the people who work for them.

Other offsets include a provision that makes certain that individuals who relinquish their U.S. citizenship or long-term U.S. residency pay the same Federal taxes for appreciation of assets, such as stocks or bonds that they would pay if they sold them as U.S. citizens or residents. The bill increases the penalty for people who fail to file their tax returns and allows the Social Security Administration and the Veterans' Administration to work together to verify low-income status when distributing veteran's benefits.

Baucus said that he would continue to work for additional provisions aiding America's military men and women in the coming days.

“The bill we passed today contains most, but not all, of the provisions endorsed by the Senate. One provision that is not included would have provided more flexibility to owners and investors in residential multi-family housing involving low-income housing tax credits, to offer more military personnel housing in complexes near military bases,” said Baucus. **“Senator Pat Roberts (R-Kans.) brought this proposal to the attention of the Senate, and I intend to work with Senator Roberts and with our House counterparts to move this provision forward.”**

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