

# *United States Senate Committee on Finance*

For Immediate Release

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## **GRASSLEY-BAUCUS BILL EXTENDS TAX, TRADE, HEALTH PROVISIONS**

*Renews tax cuts including college tuition deduction, avoids Medicare payment cuts*

**Washington, DC** – U.S. Senators Chuck Grassley (R-Iowa) and Max Baucus (D-Mont.) today unveiled bipartisan legislation to extend expired and expiring tax, health, and trade provisions. The legislation, which is expected to come to the Senate floor today, would also prevent an expected cut in Medicare’s payments to physicians in 2007, and would approve or extend a number of trade provisions. Grassley and Baucus are the Chairman and Ranking Democrat, respectively, on the Senate Finance Committee, with jurisdiction over tax, trade, and the Medicare program. Once passed by the Senate, the legislation must be harmonized with House efforts to extend expiring provisions before moving to the White House for signature this week.

**“The tax extenders are no-brainers,”** said Grassley. **“They give continued tax relief to families paying for college, teachers buying classroom supplies, and producers of clean energy from sources such as wind. The health package will stabilize access to doctors for Medicare beneficiaries. It will move Medicare toward linking payment with quality. It also helps states with children lacking health insurance and preserves Medicare beneficiaries’ access to rehabilitative therapy. On trade, this bill extends the GSP program and the ATPA program for one year. During the intervening year, I intend to work with Sen. Baucus to review these programs to ensure that they work as intended and benefit deserving countries. The Vietnam bill will give significant benefits to farmers including those in Iowa by reducing duties on U.S. exports of beef, pork, soybeans, and other products. An expanded trade relationship will help the United States and other WTO members press Vietnam for continued progress on respecting religious freedom and human rights.”**

**“This bill renews vital tax cuts like the college tuition deduction, protects seniors’ access to Medicare, and opens a market of 83 million customers in Vietnam to U.S. goods,”** said Baucus. **“These are solid proposals on tax cuts, trade provisions, and the health care Americans need, and it’s past time for Congress to move on many of these measures.”**

### TAX

**Tax** provisions in the Grassley-Baucus legislation include, but are not limited to:

**Tuition Deduction:** Allows parents and students to deduct qualified tuition and related expenses from their income for an additional two years. Cost is \$3.3 billion.

**New Market Tax Credit:** These tax credits boost investment in community development nationwide. The bill extends the program for one year and includes language making the program friendlier to rural areas, requiring the Treasury Secretary to allocate a proportional amount of equity investment in rural and urban census tracts. Total cost is \$1.3 billion.

***State and Local Sales Tax Deduction:*** Allows taxpayers to subtract their state and local sales taxes from their incomes when filing their Federal taxes through 2007. Cost is \$5.5 billion.

***R&D Tax Credit:*** Present law for the research and development tax credit will be renewed through 2006. In 2007, an additional Alternative Simplified Credit does not use gross sales as a factor in the regular credit will be available. Cost is \$16.5 billion. A special rule in the legislation will allow businesses to change elections made on originally filed tax returns to receive the research and development tax credit.

***WOTC/Welfare-to-Work:*** This provision provides employers with tax incentives for hiring economically disadvantaged Americans, moving them off the nation's welfare rolls and into the workforce. Present law for both incentives will be extended through 2006. For 2007 a modification combining the two programs takes effect. The agreement makes three particular changes to present law: repealing the requirement that an ex-felon be from an economically disadvantaged family; raising the age ceiling for food stamp recipients from 25 to 39 to encourage the hiring of more absentee fathers; and extending from 21 days to 28 days the time period for businesses to certify qualifying eligible individuals. The estimated cost is \$979 million over five years and \$1 billion over ten years.

***Earned Income Tax Credit for Combat Pay:*** Allows America's military men and women to include combat pay in earned income for purposes of calculating the earned income tax credit through 2007. The extension will cost \$12 million.

***Qualified Zone Academy Bonds (QZABs):*** Extends through 2007 the issuance of bonds which provide an alternative to traditional tax-exempt bonds for school renovation funding, allowing holders to receive Federal tax credits in lieu of cash payments. The proposal is estimated to cost \$132 million over five years and \$330 million over ten.

***Teacher Classroom Expenses:*** This provision offers teachers an above-the-line deduction of as much as \$250 for personal funds spent to buy classroom supplies for an additional two years. Cost is \$379 million.

***Outer Continental Shelf (OCS):*** The provision provides for opening more than 8.3 million acres on the outer Continental Shelf for oil and gas leasing.

The bill also extends the Abandoned Mine Land program for 15 years, ensuring that reclamation funds collected from fees on coal production will be distributed to states with the most dangerous abandoned mine sites. Other provisions in the tax title of the bill make changes and extensions including partial expensing for advanced mine safety equipment and mine rescue team training, making permanent the veterans' mortgage bond program, establishing an itemized deduction for the cost of mortgage insurance on a qualified personal residence, and extending bonus depreciation for qualified Gulf Opportunity Zone property. The bill also renews a number of expiring energy and excise tax provisions, including:

- the renewable electricity production credit
- clean renewable energy bonds
- deduction for energy efficient commercial buildings
- business credit for energy efficient new homes
- credit for residential energy efficient property purchases, and

· credit for business installation of alternative energy equipment.

## HEALTH

**Health** provisions in the Grassley-Baucus legislation include a “fix” to the Medicare physician payment schedule. The fix will prevent a five-percent cut to Medicare physician payments in 2007, providing instead a one-year, zero-percent update to the schedule. The bill also establishes a quality reporting system beginning in July of 2007. Doctors and other eligible practitioners who submit data on applicable quality measures will receive bonus incentive payments of 1.5 percent for covered services.

Health provisions also include extensions of several expiring provisions in the 2003 Medicare Modernization Act, including provisions to equalize Americans’ access to health care in rural areas, increase payments for rural physicians and some hospitals, and to ensure that Medicare beneficiaries who need significant medical therapy do not have their treatment cut off by limits or “caps” in the Medicare law. Additional health provisions in the bill include:

***Deferral of funding shortfalls for the State Children’s Health Insurance Plan (SCHIP):*** The bill redirects unspent FY04 and FY05 SCHIP funds to defer shortfalls through June, 2007. States that receive redistributed funds and that have expanded SCHIP coverage to populations other than children and pregnant women would be eligible for a Medicaid funding match for these individuals. The bill also extends a provision allowing certain states that had expanded Medicaid eligibility before SCHIP was enacted to use up to 20 percent of their FY 06 and 07 SCHIP allotments to fund coverage for Medicaid children.

***Transitional Medical Assistance (TMA)/Abstinence Education:*** Provides TMA for two quarters of 2007. TMA is the continuation of Medicaid benefits for up to one year for certain low-income families who would otherwise lose coverage because of changes in their income, due to increased hours of work or income from employment or due to child or spousal support. The bill also funds matching grants to states to provide abstinence education for the same period.

***The Elder Justice Act:*** Elevates the issues of elder abuse, neglect and exploitation to the federal level. The bill creates a public-private Elder Justice Coordinating Council to coordinate government and private resources devoted to fighting elder abuse, improves information about elder abuse, and increases research, forensic capacity, and training related to elder abuse, neglect and exploitation. It also requires additional reporting of instances of abuse in nursing homes and a study on creating a federal nurse aide registry.

***Access of Congressional Support Agencies to Medicare Advantage and Prescription Drug Plan Data:*** Ensures that the Congressional Budget Office (CBO), Government Accountability Office (GAO), Medicare Payment Advisory Commission (MedPAC), and Congressional Research Service (CRS) have access to data submitted to the Centers for Medicare and Medicaid Services (CMS) by MA and Prescription Drug Plans.

***Medicaid Provider Tax Rate Codification:*** Temporarily codifies the maximum rate at which a state can tax its health care providers under their Medicaid plan at 5.5 percent through Fiscal Year 2011. Under current rules, the maximum rate is set at six percent, a rate likely to be reduced to three percent under an anticipated proposed rule. This change saves states, nursing homes, hospitals, and other providers from feeling the impact of pending Medicaid cuts.

The bill also includes technical corrections to the Medicare and Medicaid provisions enacted in the

Deficit Reduction Act of 2005.

## TRADE

**Trade** provisions in the Grassley-Baucus legislation include:

***Generalized System of Preferences (GSP)***: The GSP program, which expires at the end of 2006, offers developing countries duty-free access to the U.S. market for certain exports. This package includes a straight extension of the program for one year.

***Andean Trade Preference Act (ATPA)***. The ATPA program offers the four Andean countries – Colombia, Peru, Ecuador, and Bolivia – duty-free access to the U.S. market for a variety of products. The program expires at the end of this year. The Grassley-Baucus bill provides a straight extension of ATPA for one year.

***African Growth Opportunity Act (AGOA)***: The AGOA program offers sub-Saharan countries duty-free access to the U.S. market. The “third country fabric provision” of AGOA, which expires in October 2007, allows AGOA countries to keep AGOA benefits on certain apparel made with fabric from countries other than the United States or African countries. This package extends the “third country fabric” provision until 2015, including Mauritius until 2010.

***Permanent Normal Trade Relations (PNTR) for Vietnam***: Vietnam has committed to open its markets to more U.S. goods as part of its accession to the World Trade Organization. This bill would grant permanent normal trade relations (PNTR) status to Vietnam, allowing the U.S. to take full advantage of Vietnam’s WTO commitments.

***Miscellaneous Tariff Bill (MTB)***: The miscellaneous tariff bill offers temporary duty reductions on a variety of items not manufactured in the United States. The MTB also provides for a very limited number of reliquidations of entries in cases of government error. Non-controversial miscellaneous tariff items passed by the House, but not included in the pension bill earlier this year, are included in the Grassley-Baucus bill.

***Haitian Hemispheric Opportunity through Partnership Encouragement (“HOPE”) Act***: The bill provides new rules of origin for duty-free apparel imports from Haiti. Haiti may only receive benefits under this Act if it meets certain political, economic, and labor criteria, and textile and apparel transshipment enforcement requirements.

***Cotton Trust Fund***: The bill suspends duties on certain cotton fabrics and establishes a trust fund not to exceed \$16,000,000 each fiscal year. Funds will be distributed among eligible yarn spinners and shirt manufacturers, and to a nationally recognized association established to promote the growth of pima cotton in the United States. The trust fund terminates October 1, 2008.

***Modifications to the tariff schedule***. The bill extends the 15-day window for implementation of changes to the Harmonized Tariff Schedule of the United States (HTSUS) to 30 days, to help businesses incorporate tariff changes into their systems. The bill also streamlines the period for legislative review of future changes to the HTSUS.

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