



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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The bill text is posted at <http://waysandmeans.house.gov/>. These documents are available from the Joint Committee on Taxation: JCX-50-06: **Technical Explanation Of H.R. 6408, The "Tax Relief And Health Care Act Of 2006," As Introduced In The House On December 7, 2006**, <http://www.house.gov/jct/x-50-06.pdf>; and JCX-51-06: **Estimated Revenue Effects Of The Revenue Provisions Contained In H.R. 6408, The "Tax Relief And Health Care Act Of 2006," As introduced In The House Of Representatives On December 7, 2006**, <http://www.house.gov/jct/x-51-06.pdf>

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BICAMERAL AGREEMENT ADDRESSES TAXES, TRADE, HEALTH
Legislation unveiled today renews tax cuts, fixes Medicare fee schedule for docs

Washington, DC – U.S. Senators Chuck Grassley (R-Iowa) and Max Baucus (D-Mont.) today struck an agreement with the House of Representatives on bipartisan, bicameral legislation to extend expired and expiring tax, health, trade, and other provisions. The legislation will also eliminate an expected cut in Medicare’s payments to physicians in 2007. Grassley and Baucus, the Chairman and Ranking Democrat on the Senate Finance Committee, had unveiled their own legislation yesterday to address expiring provisions. It is expected that the House will take up the new bicameral bill late today.

“This is a good agreement,” Grassley said. **“It continues tax relief without interruption. It stabilizes access to doctors for Medicare beneficiaries. It moves Medicare toward linking payment with quality and preserves Medicare beneficiaries’ access to rehabilitative therapy. It gives new access to farmers including those in Iowa to the growing Vietnamese market. These are things that need to get done. It’s good to see them moving forward.”**

“This is not a perfect bill, but it renews tax cuts Americans need right now, like the college tuition deduction, and makes sure that Medicare and Medicaid patients will have access to care next year. It makes certain that more U.S.-made goods will get into Vietnam’s markets as well,” said Baucus. **“Next year we need to tackle expiring tax cuts earlier, so Americans won’t have to wonder whether Congress will come through. We must also finish a job that this bill leaves undone, and cover shortfalls in the State Children’s Health Insurance Program.”**

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 Markets 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 that 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 that 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 an above-the-line deduction for an additional two years of as much as \$250 for personal funds spent by teachers to buy classroom supplies. 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 makes minor simplifications to rules regarding tax-free Health Savings Accounts and modifies tax provisions related to tobacco, wine, and charitable remainder trusts. Other provisions in the tax title 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 expiring energy 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.

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.

HEALTH

Health provisions in the 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. In addition, the bill establishes a Physician Assistance and Quality Initiative Fund to be available for physician payment and quality improvement initiatives in the future.

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, some hospitals, and dialysis services, 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. Quality reporting is also being extended to hospital outpatient services. The legislation also contains provisions that address improper payments, recouping overpayments and combating fraud and abuse. Additional health provisions in the bill include:

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.

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 beginning January 1, 2008 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.

Payment for Administration of Part D Vaccines: Provides for payment under Part B in 2007 for the administration of a Part D covered vaccine. Beginning in 2008, includes administration of a Part D covered vaccine under Part D. This provision will ensure that beneficiaries will have Medicare coverage for newly available vaccines.

TRADE

Trade provisions in the Senate-House 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 bill extends the program for two years, but allows the President to limit the availability of GSP benefits for super-competitive products – i.e. those products for which the aggregate annual import value is greater than \$180 million or that constitute more than 75 percent of total U.S. imports of such product.

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. This bill provides a straight six-month extension of the program, followed by an additional six-month extension for a beneficiary country if the United States and that country both complete their legislative processes to approve a free trade agreement.

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 beneficiary countries to keep AGOA benefits on certain apparel made with fabric from countries other than the United States or African countries. This bill extends the “third country fabric” provision until 2012. Also, in order to remove disincentives to investment in fabric production in Africa, the package creates an "abundant supply" exception to eligibility under the third country fabric provision with respect to fabrics and yarns that are available in commercial quantities from African suppliers.

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 (WTO). 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. The bill also establishes a process for the Administration to examine whether Vietnam has maintained any prohibited subsidies to its textile and apparel industry in violation of the terms of its WTO accession.

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 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.

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.

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