

108TH CONGRESS
1ST SESSION

S. 1702

To amend the Internal Revenue Code of 1986 to extend the exclusion from gross income for employer-provided health coverage to designated plan beneficiaries of employees, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 2, 2003

Mr. SMITH (for himself, Mr. GRAHAM of Florida, Mrs. BOXER, Mr. CHAFEE, Mr. CORZINE, and Mr. WYDEN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to extend the exclusion from gross income for employer-provided health coverage to designated plan beneficiaries of employees, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Domestic Partner
5 Health Benefits Equity Act”.

1 **SEC. 2. EXTENSION OF EXCLUSION FOR AMOUNTS RE-**
2 **CEIVED BY AN EMPLOYEE THROUGH ACCI-**
3 **DENT OR HEALTH INSURANCE AS REIM-**
4 **BURSEMENT FOR EXPENSES FOR MEDICAL**
5 **CARE.**

6 (a) IN GENERAL.—Section 105(b) of the Internal
7 Revenue Code of 1986 (relating to amounts expended for
8 medical care) is amended—

9 (1) by striking “Except in the case” and insert-
10 ing the following:

11 “(1) IN GENERAL.—Except in the case”,

12 (2) by adding at the end of paragraph (1) as
13 redesignated in paragraph (1) the following new sen-
14 tence: “For the purposes of this subsection, the term
15 ‘dependents’ shall include any individual who is an
16 eligible beneficiary as defined in the employer’s acci-
17 dent or health insurance arrangement.”, and

18 (3) by adding at the end the following new
19 paragraph:

20 “(2) APPLICABLE PERCENTAGE OF EXCLUSION
21 FOR CERTAIN AMOUNTS.—

22 “(A) IN GENERAL.—In the case of taxable
23 years beginning after December 31, 2004, and
24 before January 1, 2011, the exclusion from in-
25 come applicable by reason of the third sentence
26 of paragraph (1) shall be equal to the applicable

1 percentage of the amount which would (but for
2 this paragraph) be the amount of such exclu-
3 sion.

4 “(B) APPLICABLE PERCENTAGE.—For
5 purposes of subparagraph (A), the applicable
6 percentage shall be determined in accordance
7 with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

8 (b) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 2004.

11 **SEC. 3. EXTENSION OF EXCLUSION FOR CONTRIBUTIONS**
12 **BY EMPLOYER TO ACCIDENT AND HEALTH**
13 **PLANS.**

14 (a) IN GENERAL.—Section 106 of the Internal Rev-
15 enue Code of 1986 (relating to contributions by employer
16 to accident and health plans) is amended by adding at the
17 end the following new subsection:

18 “(d) COVERAGE PROVIDED FOR ELIGIBLE BENE-
19 FICIARIES OF EMPLOYEES.—

20 “(1) IN GENERAL.—Subsection (a) shall not fail
21 to apply by reason of the coverage of an eligible ben-
22 efiiciary as defined in the employer’s accident or
23 health plan.

1 “(2) APPLICABLE PERCENTAGE OF EXCLUSION
2 FOR CERTAIN COVERAGE.—

3 “(A) IN GENERAL.—In the case of taxable
4 years beginning after December 31, 2004, and
5 before January 1, 2011, the exclusion from in-
6 come applicable by reason of paragraph (1)
7 shall be equal to the applicable percentage of
8 the amount which would (but for this para-
9 graph) be the amount of such exclusion.

10 “(B) APPLICABLE PERCENTAGE.—For
11 purposes of subparagraph (A), the applicable
12 percentage shall be determined in accordance
13 with the following table:

“For taxable years beginning	The applicable percentage is—
in calendar year—	
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

14 (b) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2004.

17 **SEC. 4. EXTENSION OF DEDUCTION FOR HEALTH INSUR-**
18 **ANCE COSTS OF SELF-EMPLOYED INDIVID-**
19 **UALS.**

20 (a) IN GENERAL.—Paragraph (1) of section 162(l)
21 of the Internal Revenue Code of 1986 (relating to special
22 rules for health insurance costs of self-employed individ-
23 uals) is amended to read as follows:

1 “(1) ALLOWANCE OF DEDUCTION.—

2 “(A) IN GENERAL.—In the case of an indi-
3 vidual who is an employee within the meaning
4 of section 401(c)(1), there shall be allowed as
5 a deduction under this section an amount equal
6 to the amount paid during the taxable year for
7 insurance which constitutes medical care for the
8 taxpayer, his spouse, and dependents. For the
9 purposes of this subparagraph, the term ‘de-
10 pendents’ shall include any individual who is an
11 eligible beneficiary as defined in the insurance
12 arrangement which constitutes medical care.

13 “(B) APPLICABLE PERCENTAGE OF DE-
14 DUCTION FOR CERTAIN AMOUNTS.—

15 “(i) IN GENERAL.—In the case of tax-
16 able years beginning after December 31,
17 2004, and before January 1, 2011, the de-
18 duction applicable by reason of the second
19 sentence of subparagraph (A) shall be
20 equal to the applicable percentage of the
21 amount which would (but for this subpara-
22 graph) be the amount of such deduction.

23 “(ii) APPLICABLE PERCENTAGE.—For
24 purposes of clause (i), the applicable per-

1 centage shall be determined in accordance
2 with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2004.

6 **SEC. 5. EXTENSION OF SICK AND ACCIDENT BENEFITS PRO-**
7 **VIDED TO MEMBERS OF A VOLUNTARY EM-**
8 **PLOYEES’ BENEFICIARY ASSOCIATION AND**
9 **THEIR DEPENDENTS.**

10 (a) IN GENERAL.—Section 501(c)(9) of the Internal
11 Revenue Code of 1986 (relating to list of exempt organiza-
12 tions) is amended by adding at the end the following new
13 sentence: “For purposes of providing for the payment of
14 sick and accident benefits to members of such an associa-
15 tion and their dependents, the term ‘dependents’ shall in-
16 clude any individual who is an eligible beneficiary as deter-
17 mined under the terms of a medical benefit, health insur-
18 ance, or other program under which members and their
19 dependents are entitled to sick and accident benefits.”.

20 (b) APPLICABLE PERCENTAGE OF PAYMENT OF CER-
21 TAIN SICK AND ACCIDENT BENEFITS.—Section 501 of the
22 Internal Revenue Code of 1986 (relating to exemption
23 from tax on corporations, certain trusts, etc.) is amended

1 by redesignating subsection (p) as subsection (q) and by
 2 inserting after subsection (o) the following new subsection:

3 “(p) APPLICABLE PERCENTAGE OF PAYMENT OF
 4 CERTAIN SICK AND ACCIDENT BENEFITS.—

5 “(1) IN GENERAL.—In the case of taxable years
 6 beginning after December 31, 2004, and before Jan-
 7 uary 1, 2011, the exemption from tax applicable by
 8 reason of the second sentence of subsection (e)(9)
 9 shall be equal to the applicable percentage of the
 10 amount which would (but for this subsection) be the
 11 amount of such exemption.

12 “(2) APPLICABLE PERCENTAGE.—For purposes
 13 of paragraph (1), the applicable percentage shall be
 14 determined in accordance with the following table:

“For taxable years beginning	The applicable percentage is—
in calendar year—	
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

15 (c) EFFECTIVE DATE.—The amendments made by
 16 this section shall apply to taxable years beginning after
 17 December 31, 2004.

18 **SEC. 6. AMENDMENTS TO VARIOUS DEFINITIONS.**

19 (a) FICA.—

20 (1) IN GENERAL.—Section 3121 of the Internal
 21 Revenue Code of 1986 (relating to definitions) is
 22 amended by adding at the end the following new
 23 subsection:

1 “(z) EXCLUSION OF CERTAIN AMOUNTS FROM
2 WAGES.—

3 “(1) IN GENERAL.—For purposes of applying
4 subsection (a) with respect to expenses described in
5 paragraph (2)(B) of such subsection, the term ‘de-
6 pendents’ shall include any individual who is an eli-
7 gible beneficiary as defined in the plan or system es-
8 tablished by the employer.

9 “(2) APPLICABLE PERCENTAGE OF EXCLUSION
10 FROM WAGES.—

11 “(A) IN GENERAL.—In the case of taxable
12 years beginning after December 31, 2004, and
13 before January 1, 2011, the exclusion from
14 wages applicable by reason of paragraph (1)
15 shall be equal to the applicable percentage of
16 the amount which would (but for this para-
17 graph) be the amount of such exclusion.

18 “(B) APPLICABLE PERCENTAGE.—For
19 purposes of subparagraph (A), the applicable
20 percentage shall be determined in accordance
21 with the following table:

“For taxable years beginning	The applicable percentage is—
in calendar year—	
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

22 “(2) CONFORMING AMENDMENT.—Section 209
23 of the Social Security Act (42 U.S.C. 409) is amend-

1 ed by adding at the end the following new sub-
2 section:

3 “(1)(1) For purposes of applying subsection (a) with
4 respect to medical or hospitalization expenses described in
5 paragraph (2) thereof, the term ‘dependents’ shall include
6 any individual who is an eligible beneficiary as defined in
7 the plan or system established by the employer.

8 “(2)(A) In the case of taxable years beginning after
9 December 31, 2004, and before January 1, 2011, the ex-
10 clusion from wages applicable by reason of paragraph (1)
11 shall be equal to the applicable percentage of the amount
12 which would (but for this paragraph) be the amount of
13 such exclusion.

14 “(B) For purposes of subparagraph (A), the applica-
15 ble percentage shall be determined in accordance with the
16 following table:

“For taxable years beginning	The applicable percentage is—
in calendar year—	
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

17 (b) RAILROAD RETIREMENT.—

18 (1) IN GENERAL.—Section 3231(e) of the Inter-
19 nal Revenue Code of 1986 (defining compensation)
20 is amended by adding at the end the following new
21 paragraph:

22 “(11) TREATMENT OF CERTAIN DEPEND-
23 ENTS.—

1 “(A) IN GENERAL.—For purposes of ap-
 2 plying this subsection with respect to medical or
 3 hospitalization expenses described in paragraph
 4 (1)(i), the term ‘dependents’ shall include any
 5 individual who is an eligible beneficiary as de-
 6 fined in the plan or system established by the
 7 employer.

8 “(B) APPLICABLE PERCENTAGE OF EX-
 9 CLUSION FROM COMPENSATION.—

10 “(i) IN GENERAL.—In the case of tax-
 11 able years beginning after December 31,
 12 2004, and before January 1, 2011, the ex-
 13 clusion from compensation applicable by
 14 reason of subparagraph (A) shall be equal
 15 to the applicable percentage of the amount
 16 which would (but for this subparagraph)
 17 be the amount of such exclusion.

18 “(ii) APPLICABLE PERCENTAGE.—For
 19 purposes of clause (i), the applicable per-
 20 centage shall be determined in accordance
 21 with the following table:

“For taxable years beginning	The applicable percentage is—	
in calendar year—		
2005, 2006, or 2007		25
2008, 2009, 2010		50.”.

22 (2) CONFORMING AMENDMENT.—Section 1(h)
 23 of the Railroad Retirement Act of 1974 (45 U.S.C.

1 231(h)) is amended by adding at the end the fol-
 2 lowing new paragraph:

3 “(9)(A) For purposes of applying this subsection,
 4 with respect to medical or hospitalization expenses de-
 5 scribed in paragraph (6)(v), the term ‘dependents’ shall
 6 include any individual who is an eligible beneficiary as de-
 7 fined in the plan or system established by the employer.

8 “(B)(i) In the case of taxable years beginning after
 9 December 31, 2004, and before January 1, 2011, the ex-
 10 clusion from compensation applicable by reason of sub-
 11 paragraph (A) shall be equal to the applicable percentage
 12 of the amount which would (but for this subparagraph)
 13 be the amount of such exclusion.

14 “(ii) For purposes of clause (i), the applicable per-
 15 centage shall be determined in accordance with the fol-
 16 lowing table:

“For taxable years beginning	The applicable percentage is—	
in calendar year—		
2005, 2006, or 2007		25
2008, 2009, 2010		50.”.

17 (c) FUTA.—Section 3306 of the Internal Revenue
 18 Code of 1986 (relating to definitions) is amended by add-
 19 ing at the end the following new subsection:

20 “(v) EXCLUSION OF CERTAIN AMOUNTS FROM
 21 WAGES.—

22 “(1) IN GENERAL.—For purposes of applying
 23 subsection (b) with respect to expenses described in

1 paragraph (2)(B) of such subsection, the term ‘de-
2 dependents’ shall include any individual who is an eli-
3 gible beneficiary as defined in the plan or system es-
4 tablished by the employer.

5 “(2) APPLICABLE PERCENTAGE OF EXCLUSION
6 FROM WAGES.—

7 “(A) IN GENERAL.—In the case of taxable
8 years beginning after December 31, 2004, and
9 before January 1, 2011, the exclusion from
10 wages applicable by reason of paragraph (1)
11 shall be equal to the applicable percentage of
12 the amount which would (but for this para-
13 graph) be the amount of such exclusion.

14 “(B) APPLICABLE PERCENTAGE.—For
15 purposes of subparagraph (A), the applicable
16 percentage shall be determined in accordance
17 with the following table:

“For taxable years beginning The applicable percentage is—	
in calendar year—	
2005, 2006, or 2007	25
2008, 2009, 2010	50.”.

18 (d) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to remuneration paid after Decem-
20 ber 31, 2004.

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