

109TH CONGRESS  
1ST SESSION

# H. R. 4527

To amend the Internal Revenue Code of 1986 to provide tax incentives  
to encourage small business health plans.

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## IN THE HOUSE OF REPRESENTATIVES

DECEMBER 14, 2005

Mr. BOSWELL (for himself and Mr. OSBORNE) introduced the following bill;  
which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide  
tax incentives to encourage small business health plans.

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 “Health Care Relief  
5       Act of 2005”.

6       **SEC. 2. FIRST \$2,000 OF HEALTH INSURANCE PREMIUMS**

7                       **FULLY DEDUCTIBLE.**

8       (a) IN GENERAL.—Subsection (a) of section 213 of  
9       the Internal Revenue Code of 1986 (relating to medical,  
10      dental, etc., expenses) is amended to read as follows:

1       “(a) ALLOWANCE OF DEDUCTION.—There shall be  
 2 allowed as a deduction the following amounts not com-  
 3 pensated for by insurance or otherwise—

4               “(1) the amount by which the amount of ex-  
 5 penses paid during the taxable year (reduced by the  
 6 amount deductible under paragraph (2)) for medical  
 7 care of the taxpayer, the taxpayer’s spouse, and the  
 8 taxpayer’s dependents (as defined in section 152) ex-  
 9 ceeds 7.5 percent of adjusted gross income, plus

10              “(2) so much of the expenses paid during the  
 11 taxable year for insurance which constitutes medical  
 12 care under subsection (d)(1)(D) (other than for a  
 13 qualified long-term care insurance contract) for such  
 14 taxpayer, spouse, and dependents as does not exceed  
 15 \$2,000.”.

16       (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
 17 PAYER ITEMIZES DEDUCTION.—Subsection (a) of section  
 18 62 of the Internal Revenue Code of 1986 (defining ad-  
 19 justed gross income) is amended by redesignating para-  
 20 graph (19) (as added by section 703(a) of the American  
 21 Jobs Creation Act of 2004) as paragraph (20) and by in-  
 22 serting after paragraph (20) (as so redesignated) the fol-  
 23 lowing new paragraph:

24              “(21) HEALTH INSURANCE PREMIUMS.—The  
 25 deduction allowed by section 213(a)(2).”.

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2005.

4       **SEC. 3. CREDIT FOR HEALTH INSURANCE EXPENSES OF**  
5                               **SMALL BUSINESSES.**

6       (a) IN GENERAL.—Subpart D of part IV of sub-  
7 chapter A of chapter 1 of the Internal Revenue Code of  
8 1986 (relating to business-related credits) is amended by  
9 adding at the end the following:

10    **“SEC. 45N. SMALL BUSINESS HEALTH INSURANCE EX-**  
11                               **PENSES.**

12       “(a) GENERAL RULE.—For purposes of section 38,  
13 in the case of a small employer, the health insurance credit  
14 determined under this section for the taxable year is an  
15 amount equal to the applicable percentage of the expenses  
16 paid by the taxpayer during the taxable year for health  
17 insurance coverage for such year provided under a new  
18 health plan for employees of such employer.

19       “(b) APPLICABLE PERCENTAGE.—For purposes of  
20 subsection (a), the applicable percentage is—

21               “(1) in the case of insurance purchased as a  
22       member of a health benefit purchasing coalition (as  
23       defined in regulations prescribed by the Secretary),  
24       40 percent, and

1 “(2) in the case of insurance not described in  
2 paragraph (1), 30 percent.

3 “(c) LIMITATIONS.—

4 “(1) PER EMPLOYEE DOLLAR LIMITATION.—

5 The amount of expenses taken into account under  
6 subsection (a) with respect to any employee for any  
7 taxable year shall not exceed—

8 “(A) in the case of insurance purchased as  
9 a member of a coalition referred to in sub-  
10 section (b)(1)—

11 “(i) \$800 in the case of self-only cov-  
12 erage, and

13 “(ii) \$2,000 in the case of family cov-  
14 erage, and

15 “(B) in any other case—

16 “(i) \$600 in the case of self-only cov-  
17 erage, and

18 “(ii) \$1,500 in the case of family cov-  
19 erage.

20 In the case of an employee who is covered by a new  
21 health plan of the employer for only a portion of  
22 such taxable year, the limitation under the preceding  
23 sentence shall be an amount which bears the same  
24 ratio to such limitation (determined without regard

1 to this sentence) as such portion bears to the entire  
2 taxable year.

3 “(2) PERIOD OF COVERAGE.—Expenses may be  
4 taken into account under subsection (a) only with  
5 respect to coverage for the 4-year period beginning  
6 on the date the employer establishes a new health  
7 plan.

8 “(3) EMPLOYER MUST BEAR 65 PERCENT OF  
9 COST.—Expenses may be taken into account under  
10 subsection (a) only if at least 65 percent of the cost  
11 of the coverage (without regard to this section) is  
12 borne by the employer.

13 “(d) DEFINITIONS.—For purposes of this section—

14 “(1) HEALTH INSURANCE COVERAGE.—The  
15 term ‘health insurance coverage’ has the meaning  
16 given such term by section 9832(b)(1).

17 “(2) NEW HEALTH PLAN.—

18 “(A) IN GENERAL.—The term ‘new health  
19 plan’ means any arrangement of the employer  
20 which provides health insurance coverage to em-  
21 ployees if—

22 “(i) such employer (and any prede-  
23 cessor employer) did not establish or main-  
24 tain such arrangement (or any similar ar-  
25 rangement) at any time during the 2 tax-

1           able years ending prior to the taxable year  
2           in which the credit under this section is  
3           first allowed, and

4           “(ii) such arrangement provides  
5           health insurance coverage to at least 70  
6           percent of the qualified employees of such  
7           employer.

8           “(B) QUALIFIED EMPLOYEE.—

9           “(i) IN GENERAL.—The term ‘quali-  
10          fied employee’ means any employee of an  
11          employer and shall include a leased em-  
12          ployee within the meaning of section  
13          414(n).

14          “(3) SMALL EMPLOYER.—The term ‘small em-  
15          ployer’ has the meaning given to such term by sec-  
16          tion 4980D(d)(2); except that—

17               “(A) only qualified employees shall be  
18               taken into account, and

19               “(B) such section shall be applied by sub-  
20               stituting ‘100 employees’ for ‘50 employees’.

21          “(e) SPECIAL RULES.—

22               “(1) CERTAIN RULES MADE APPLICABLE.—For  
23          purposes of this section, rules similar to the rules of  
24          section 52 shall apply.

1           “(2) AMOUNTS PAID UNDER SALARY REDUC-  
 2           TION ARRANGEMENTS.—No amount paid or incurred  
 3           pursuant to a salary reduction arrangement shall be  
 4           taken into account under subsection (a).

5           “(3) INFLATION ADJUSTMENT.—In the case of  
 6           any taxable year beginning in a calendar year after  
 7           2006, each dollar amount contained in subsections  
 8           (c)(1) and (d)(2)(B) shall be increased by an  
 9           amount equal to—

10                   “(A) such dollar amount, multiplied by

11                   “(B) the cost-of-living adjustment deter-  
 12                   mined under section 1(f)(3) for the calendar  
 13                   year in which the taxable year begins, deter-  
 14                   mined by substituting ‘calendar year 2005’ for  
 15                   ‘calendar year 1992’ in subparagraph (B)  
 16                   thereof.

17           Any increase determined under the preceding sen-  
 18           tence shall be rounded to the nearest multiple of  
 19           \$50.

20           “(f) TERMINATION.—This section shall not apply to  
 21           expenses paid or incurred by an employer with respect to  
 22           any arrangement established on or after January 1,  
 23           2012.”.

24           (b) CREDIT TO BE PART OF GENERAL BUSINESS  
 25           CREDIT.—Section 38(b) of such Code (relating to current

1 year business credit) is amended by striking “plus” at the  
 2 end of paragraph (25), by striking the period at the end  
 3 of paragraph (26) and inserting “, plus”, and by adding  
 4 at the end the following:

5 “(27) in the case of a small employer (as de-  
 6 fined in section 45N(d)(3)), the health insurance  
 7 credit determined under section 45N(a).”.

8 (c) DENIAL OF DOUBLE BENEFIT.—Section 280C of  
 9 such Code is amended by adding at the end the following  
 10 new subsection:

11 “(e) CREDIT FOR SMALL BUSINESS HEALTH INSUR-  
 12 ANCE EXPENSES.—

13 “(1) IN GENERAL.—No deduction shall be al-  
 14 lowed for that portion of the expenses (otherwise al-  
 15 lowable as a deduction) taken into account in deter-  
 16 mining the credit under section 45N for the taxable  
 17 year which is equal to the amount of the credit de-  
 18 termined for such taxable year under section  
 19 45N(a).

20 “(2) CONTROLLED GROUPS.—Persons treated  
 21 as a single employer under subsection (a) or (b) of  
 22 section 52 shall be treated as 1 person for purposes  
 23 of this section.”.

24 (d) CLERICAL AMENDMENT.—The table of sections  
 25 for subpart D of part IV of subchapter A of chapter 1



1 of such Code is amended by adding at the end the fol-  
 2 lowing:

“Sec. 45N. Small business health insurance expenses.”.

3 (e) EFFECTIVE DATE.—The amendments made by  
 4 this section shall apply to amounts paid or incurred in tax-  
 5 able years beginning after December 31, 2005, for ar-  
 6 rangements established after the date of the enactment  
 7 of this Act.

8 **SEC. 4. REFUNDABLE HEALTH INSURANCE COSTS CREDIT.**

9 (a) ALLOWANCE OF CREDIT.—

10 (1) IN GENERAL.—Subpart C of part IV of sub-  
 11 chapter A of chapter 1 of the Internal Revenue Code  
 12 of 1986 (relating to refundable personal credits) is  
 13 amended by redesignating section 36 as section 37  
 14 and by inserting after section 35 the following new  
 15 section:

16 **“SEC. 36. HEALTH INSURANCE COSTS FOR UNINSURED IN-  
 17 DIVIDUALS.**

18 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 19 dividual, there shall be allowed as a credit against the tax  
 20 imposed by this subtitle for the taxable year an amount  
 21 equal to the amount paid by the taxpayer during such tax-  
 22 able year for qualified health insurance for the taxpayer  
 23 and the taxpayer’s spouse and dependents.

1       “(b) LIMITATION.—The amount allowed as a credit  
2 under subsection (a) for a taxable year shall not exceed  
3 \$500.

4       “(c) QUALIFIED HEALTH INSURANCE.—For pur-  
5 poses of this section, the term ‘qualified health insurance’  
6 means health insurance coverage (as defined in section  
7 9832(b)(1)).

8       “(d) SPECIAL RULES.—

9               “(1) COORDINATION WITH MEDICAL EXPENSE  
10 DEDUCTION.—The amount which would (but for this  
11 paragraph) be taken into account by the taxpayer  
12 under section 213 for the taxable year shall be re-  
13 duced by the credit (if any) allowed by this section  
14 to the taxpayer for such year.

15              “(2) COORDINATION WITH DEDUCTION FOR  
16 HEALTH INSURANCE COSTS OF SELF-EMPLOYED IN-  
17 DIVIDUALS.—In the case of a taxpayer who is eligi-  
18 ble to deduct any amount under section 162(l) for  
19 the taxable year, this section shall apply only if the  
20 taxpayer elects not to claim any amount as a deduc-  
21 tion under such section for such year.

22              “(3) COORDINATION WITH DEDUCTION FOR AR-  
23 CHER MSAS AND HSAS.—In the case of a taxpayer  
24 who is eligible to deduct any amount under section  
25 220 or 223 for the taxable year, this section shall

1       apply only if the taxpayer elects not to claim any  
2       amount as a deduction under such section for such  
3       year.

4               “(4) DENIAL OF CREDIT TO DEPENDENTS.—No  
5       credit shall be allowed under this section to any indi-  
6       vidual with respect to whom a deduction under sec-  
7       tion 151 is allowable to another taxpayer for a tax-  
8       able year beginning in the calendar year in which  
9       such individual’s taxable year begins.

10              “(5) COORDINATION WITH SECTION 35.—In the  
11       case that a taxpayer is eligible for the same taxable  
12       year for the credit allowed under subsection (a) and  
13       the credit allowed under section 35, no credit shall  
14       be allowed under subsection (a) for the taxable year  
15       unless the taxpayer elects to claim the credit under  
16       subsection (a) and not to claim the credit under sec-  
17       tion 35.

18              “(e) EXPENSES MUST BE SUBSTANTIATED.—A pay-  
19       ment for insurance to which subsection (a) applies may  
20       be taken into account under this section only if the tax-  
21       payer substantiates such payment in such form as the Sec-  
22       retary may prescribe.

23              “(f) REGULATIONS.—The Secretary may prescribe  
24       such regulations as may be necessary to carry out the pur-  
25       poses of this section.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 162(l) of the Internal Revenue Code  
3 of 1986 is amended by adding at the end the fol-  
4 lowing:

5 “(6) ELECTION TO HAVE SUBSECTION  
6 APPLY.—No deduction shall be allowed under para-  
7 graph (1) for a taxable year unless the taxpayer  
8 elects to have this subsection apply for such year.”.

9 (2) Section 220(b) of such Code is amended by  
10 adding at the end the following:

11 “(8) ELECTION TO HAVE SUBSECTION  
12 APPLY.—No deduction shall be allowed under sub-  
13 section (a) for a taxable year unless the taxpayer  
14 elects to have this section apply for such year.”.

15 (3) Section 223(b) of such Code is amended by  
16 adding at the end the following:

17 “(8) ELECTION TO HAVE SUBSECTION  
18 APPLY.—No deduction shall be allowed under sub-  
19 section (a) for a taxable year unless the taxpayer  
20 elects to have this section apply for such year.”.

21 (4) Paragraph (2) of section 1324(b) of title  
22 31, United States Code, is amended by inserting be-  
23 fore the period “, or from section 36 of such Code”.

24 (5) The table of sections for subpart C of part  
25 IV of subchapter A of chapter 1 of the Internal Rev-

1        enue Code of 1986 is amended by striking the last  
2        item and inserting the following:

“Sec. 36. Health insurance costs for uninsured individuals.

“Sec. 37. Overpayments of tax.”.

3        (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2005.

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