

110TH CONGRESS
1ST SESSION

S. 1556

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

JUNE 6, 2007

Mr. SMITH (for himself, Ms. CANTWELL, Mr. LIEBERMAN, Mr. WYDEN, Mr. KERRY, Mr. AKAKA, Mrs. MURRAY, and Mr. DODD) 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 “Tax Equity for Domes-
5 tic Partner and Health Plan Beneficiaries Act”.

1 **SEC. 2. APPLICATION OF ACCIDENT AND HEALTH PLANS**
 2 **TO ELIGIBLE BENEFICIARIES.**

3 (a) **EXCLUSION OF CONTRIBUTIONS.**—Section 106 of
 4 the Internal Revenue Code of 1986 (relating to contribu-
 5 tions by employer to accident and health plans) is amend-
 6 ed by adding at the end the following new subsection:

7 “(f) **COVERAGE PROVIDED FOR ELIGIBLE BENE-**
 8 **FICIARIES OF EMPLOYEES.**—

9 “(1) **IN GENERAL.**—Subsection (a) shall apply
 10 with respect to an eligible beneficiary and any quali-
 11 fying child who is a dependent of the eligible bene-
 12 ficiary.

13 “(2) **QUALIFYING CHILD; DEPENDENT.**—For
 14 purposes of this subsection—

15 “(A) **QUALIFYING CHILD.**—The term
 16 ‘qualifying child’ has the meaning given such
 17 term by section 152(c).

18 “(B) **DEPENDENT.**—The term ‘dependent’
 19 has the meaning given such term by section
 20 105(b).”.

21 (b) **EXCLUSION OF AMOUNTS EXPENDED FOR MED-**
 22 **ICAL CARE.**—The first sentence of section 105(b) of such
 23 Code (relating to amounts expended for medical care) is
 24 amended—

25 (1) by striking “and his dependents” and in-
 26 serting “his dependents”, and

1 (2) by inserting before the period at the end of
 2 the first sentence the following: “, an eligible bene-
 3 ficiary with respect to the taxpayer, and any quali-
 4 fying child of an eligible beneficiary (within the
 5 meaning of section 106(f)) with respect to the tax-
 6 payer”.

7 (c) PAYROLL TAXES.—

8 (1) Section 3121(a)(2) of such Code is amend-
 9 ed—

10 (A) by striking “or any of his dependents”
 11 both places it appears and inserting “, any of
 12 his dependents, any eligible beneficiary with re-
 13 spect to the employee, or any qualifying chil-
 14 dren of such eligible beneficiary (within the
 15 meaning of section 106(f)),”,

16 (B) by striking “and their dependents” the
 17 first place it appears and inserting “, their de-
 18 pendents, eligible beneficiaries with respect to
 19 employees, and qualifying children of such eligi-
 20 ble beneficiaries (within the meaning of section
 21 106(f)),”, and

22 (C) by striking “and their dependents” the
 23 second place it appears and inserting “, their
 24 dependents, eligible beneficiaries with respect to
 25 employees, and qualifying children of such eligi-

1 ble beneficiaries (within the meaning of section
2 106(f))”.

3 (2) Section 3231(e)(1) of such Code is amend-
4 ed—

5 (A) by striking “or any of his dependents”
6 and inserting “, any of his dependents, any eli-
7 gible beneficiary with respect to the employee,
8 or any qualifying children of such eligible bene-
9 ficiary (within the meaning of section 106(f)),”,

10 (B) by striking “and their dependents” the
11 first place it appears and inserting “, their de-
12 pendents, eligible beneficiaries with respect to
13 employees, and qualifying children of such eligi-
14 ble beneficiaries (within the meaning of section
15 106(f)),”, and

16 (C) by striking “and their dependents” the
17 second place it appears and inserting “, their
18 dependents, eligible beneficiaries with respect to
19 employees, and qualifying children of such eligi-
20 ble beneficiaries (within the meaning of section
21 106(f))”.

22 (3) Section 3306(b)(2) of such Code is amend-
23 ed—

24 (A) by striking “or any of his dependents”
25 both places it appears and inserting “, any of

1 his dependents, any eligible beneficiary with re-
2 spect to the employee, or any qualifying chil-
3 dren of such eligible beneficiary (within the
4 meaning of section 106(f)),”,

5 (B) by striking “and their dependents” the
6 first place it appears and inserting “, their de-
7 pendents, eligible beneficiaries with respect to
8 employees, and qualifying children of such eligi-
9 ble beneficiaries (within the meaning of section
10 106(f)),”, and

11 (C) by striking “and their dependents” the
12 second place it appears and inserting “, their
13 dependents, eligible beneficiaries with respect to
14 employees, and qualifying children of such eligi-
15 ble beneficiaries (within the meaning of section
16 106(f))”.

17 (4) Section 3401(a) of such Code is amended
18 by striking “or” at the end of paragraph (21), by
19 striking the period at the end of paragraph (22) and
20 inserting “; or”, and by inserting after paragraph
21 (22) the following new paragraph:

22 “(23) for any payment made to or for the ben-
23 efit of an employee or his eligible beneficiary or any
24 qualifying children of his eligible beneficiary (within
25 the meaning of section 106(f)) if at the time of such

8 SEC. 3. EXPANSION OF DEPENDENCY FOR PURPOSES OF
9 DEDUCTION FOR HEALTH INSURANCE COSTS
10 OF SELF-EMPLOYED INDIVIDUALS.

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

“(1) ALLOWANCE OF DEDUCTION.—In the case of a taxpayer who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to the amount paid during the taxable year for insurance which constitutes medical care for—

21 “(A) the taxpayer,

22 “(B) the taxpayer’s spouse,

23 “(C) the taxpayer’s dependents,

24 “(D) an individual—

1 “(i) who satisfies the age require-
 2 ments of section 152(c)(3)(A),

3 “(ii) who bears a relationship to the
 4 taxpayer described in section
 5 152(d)(2)(H), and

6 “(iii) meets the requirements of sec-
 7 tion 152(d)(1)(C), and

8 “(E) an individual who—

9 “(i) is designated by the taxpayer for
 10 purposes of this paragraph,

11 “(ii) bears a relationship to the tax-
 12 payer described in section 152(d)(2)(H),

13 “(iii) meets the requirements of sec-
 14 tion 152(d)(1)(D), and

15 “(iv) is not the spouse of the taxpayer
 16 and does not bear any relationship to the
 17 taxpayer described in subparagraphs (A)
 18 through (G) of section 152(d)(2).

19 For purposes of subparagraph (E)(i), not more
 20 than 1 person may be designated by the tax-
 21 payer for any taxable year.”.

22 (b) CONFORMING AMENDMENT.—Subparagraph (B)
 23 of section 162(l)(2) of the Internal Revenue Code of 1986
 24 is amended by striking “or of the spouse of the taxpayer”

1 and inserting “, of the spouse of the taxpayer, or of any
2 individual described in paragraph (1)(E)”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2006.

6 **SEC. 4. EXTENSION TO ELIGIBLE BENEFICIARIES OF SICK**
7 **AND ACCIDENT BENEFITS PROVIDED TO**
8 **MEMBERS OF A VOLUNTARY EMPLOYEES’**
9 **BENEFICIARY ASSOCIATION AND THEIR DE-**
10 **PENDENTS.**

11 (a) IN GENERAL.—Section 501(c)(9) of the Internal
12 Revenue Code of 1986 (relating to list of exempt organiza-
13 tions) is amended by adding at the end the following new
14 sentence: “For purposes of providing for the payment of
15 sick and accident benefits to members of such an associa-
16 tion and their dependents, the term ‘dependents’ shall in-
17 clude any individual who is an eligible beneficiary and any
18 qualifying child of an eligible beneficiary (within the mean-
19 ing of section 106(f)), as determined under the terms of
20 a medical benefit, health insurance, or other program
21 under which members and their dependents are entitled
22 to sick and accident benefits.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to taxable years beginning after
25 December 31, 2006.

1 **SEC. 5. FLEXIBLE SPENDING ARRANGEMENTS AND HEALTH**
2 **REIMBURSEMENT ARRANGEMENTS.**

3 The Secretary of Treasury shall issue guidance of
4 general applicability providing that medical expenses that
5 otherwise qualify—

6 (1) for reimbursement from a flexible spending
7 arrangement under regulations in effect on the date
8 of the enactment of this Act may be reimbursed
9 from an employee's flexible spending arrangement,
10 notwithstanding the fact that such expenses are at-
11 tributable to any individual who is an eligible bene-
12 ficiary under the flexible spending arrangement or to
13 any qualifying child of such an eligible beneficiary
14 (within the meaning of section 106(f) of the Internal
15 Revenue Code of 1986), and

16 (2) for reimbursement from a health reimburse-
17 ment arrangement under administrative guidance in
18 effect on the date of the enactment of this Act may
19 be reimbursed from an employee's health reimburse-
20 ment arrangement, notwithstanding the fact that
21 such expenses are attributable to an individual who
22 is not a spouse or dependent within the meaning of
23 section 152 of such Code but who is designated by
24 the employee as eligible to have his or her expenses
25 reimbursed under the health reimbursement ar-
26 rangement.

1 **SEC. 6. EXTENSION OF QUALIFIED MEDICAL EXPENSES**
 2 **FROM HEALTH SAVINGS ACCOUNTS.**

3 (a) IN GENERAL.—Subparagraph (A) of section
 4 223(d)(2) of the Internal Revenue Code of 1986 (relating
 5 to qualified medical expenses) is amended—

6 (1) by striking “and any dependent” and in-
 7 serting “any dependent”, and

8 (2) by inserting “, and any qualified bene-
 9 ficiary” after “thereof”).

10 (b) QUALIFIED BENEFICIARY.—Section 223(d)(2) of
 11 such Code is amended by inserting after subparagraph (C)
 12 the following new subparagraph:

13 “(D) QUALIFIED BENEFICIARY.—For pur-
 14 poses of subparagraph (A), the term ‘qualified
 15 beneficiary’ means any individual who is de-
 16 scribed in subparagraph (D) or (E) of section
 17 162(l)(1).”.

18 (c) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to taxable years beginning after
 20 December 31, 2007.

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