RSC
Republican Study Committee
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Legislative Bulletin……………………………….……….December 7, 2006

Contents:

H.R. 6408—Tax Relief and Health Care Act

H.R. 6408—Tax Relief and Health Care Act—*as introduced* (Thomas, R-CA)

NOTE: This bill appears to violate the budget by billions of dollars.

Order of Business: The bill is scheduled to be considered on Thursday, December 7th, subject to a closed rule, which itself was subject to H.Res. 1096, which waived clause 6(a) of House Rule XIII (requiring a two-thirds vote to consider a rule on the same day it is reported from the Rules Committee).

Summary: H.R. 6408 contains the following provisions:

- the Abandoned Mine Land Fund language that was the subject of a memo distributed in July to all RSC offices ($4.9 billion in new mandatory spending over ten years);
- an increase in payments to Medicare physician payments (the "doc fix");
- other health provisions;
- the Senate-passed bill (S. 3711) slightly expanding oil and gas drilling on the Outer Continental Shelf (OCS);
- the tax extenders pulled from the tax reconciliation bill before passage (such as the state sales tax deduction and R&D tax credit) and passed as part of H.R. 5970 ("the trifecta" in July); and
- a variety of other tax and miscellaneous provisions.

Abandoned Mine Land Fund

H.R. 6408 would modify the Abandoned Mine Land Fund, in accordance with the following details:

Background: The Abandoned Mine Land (AML) fund was created in 1977 as part of the Surface Mining Control and Reclamation Act. The purpose of the AML was to provide for reclamation and environmental cleanup of abandoned mines in place prior to August 3, 1977.

To finance these activities, fees were placed on coal production and the receipts placed in the AML. Specifically, production fees of 35 cents per ton of surface mined coal, 15 cents per ton of coal mined underground and 10 cents per ton of lignite are collected from coal producers at all active coal mining operations. The authorization to collect these fees was scheduled to expire at the end of FY 2004, but has been subsequently extended a number of times, most recently through FY 2007.

Under current law, AML receipts are split between states and the federal government. Federal funding is discretionary and subject to annual appropriations. In recent years, the value of these receipts has not been fully appropriated. However, a notional "interest" on these AML receipts is paid from general revenues to the United Mine Workers Combined Benefit Fund (CBF), to pay the health benefits of retirees of coal companies who have left the industry or gone bankrupt.

Proposed AML Fix: The AML proposal—championed by Sen. Rick Santorum and Rep. Barbara Cubin (an RSC Member who distributed information strongly advocating the fix in an "RSC Item," dated July 26, 2006, that we commend to your attention)—would make a number of changes to the program. While extending the AML fees for 15 years, it would *reduce* the fees on coal by 10% in 2008, and by a total of 20% in 2013, and thereafter—meaning that coal companies would be contributing less to the AML program.

In addition, the program would be converted from discretionary to mandatory, *costing $4.9 billion over ten years in new direct spending* according to CBO. The cost is generated from three new spending items: (1) a repayment to states *from general revenues* of any unobligated balances (i.e. the value of the AML fees not appropriated); (2) the removal of a cap on the amount of general fund "interest" transfers to the CBF (currently the transfer is capped at $70 million annually); and (3) the expansion of the CBF's beneficiaries to include two new health plans for retired mine workers.

Budget Implications: Since the AML program is currently discretionary, the proposed conversion to a mandatory program would add $4.9 billion in new entitlement spending. Furthermore, CBO estimates that the proposed fix would increase the deficit by $3.9 billion over ten years. (CBO credits the fix for bringing in $1 billion over ten years by extending the fees, albeit at a lower rate. This extension offsets the full cost of $4.9 billion over ten years.) In addition, by removing these spending items from the appropriations process, it frees up an equivalent amount under the budget to be spent on other discretionary items.

Supporters of the AML fix contend that there is no real cost to the taxpayer—that only coal money is being used to pay for coal problems ("revenue that the federal government receives from the coal industry"). Specifically, supporters contend that receipts currently being collected under the Mineral Leasing Act (MLA) from coal-related rents, royalties, bonuses and lease sales should fund the AML program. Under current law these MLA revenues do

not go to the AML but fund other activities. However, in the proposed AML fix this would not change—MLA revenues would still not be deposited in the AML or support the AML program.

AML supporters propose to spend an equivalent amount of general fund tax dollars *as if the MLA receipts had been credited to the AML trust fund*. Unfortunately, these MLA receipts are already accounted for, and the fix neither brings in sufficient new revenues nor redirects the existing MLA revenues to the AML program. However, this does not change the fact that if enacted, the fix would cause the federal government to spend more than it would before—all at the same time that the AML coal fees are being reduced.

In a letter to Senator Enzi, the Administration concurred with the analysis above, stating:

> The Administration opposes the proposed amendments to SMCRA because they would create new mandatory spending and extend health benefits to new groups of former coal industry employees at the taxpayer's expense. In addition, the amendments do not substantially contribute to the reclamation of abandoned coal sites.

Bottom Line: **In short, the AML proposal would require coal companies to pay less in fees, states and retired workers to receive more in benefits, and the federal government to cover the difference.** Some conservatives may be concerned that this is not a good deal for the American taxpayer. CBO estimates that it will cost taxpayers $4.9 billion over ten years, and the House Budget Committee has confirmed that without offsets, it will violate the FY 2007 budget resolution.

Doc Fix and Other Health Provisions

Update for Medicare Physicians' Services for 2007. H.R. 6408 would provide a 0% update to the conversation factor for 2007. In November, CMS announced that the annual update to the conversion factor for 2007 is negative 5.1%, stating that "the negative update is projected for 2007 because spending on physicians' services and other Part B services has been growing at a much faster rate than target spending." Providing a 0% update to the conversion factor would ensure that the -5.1% update does not go into effect. CBO estimates that this provision will cost $3.1 billion over ten years. H.R. 6408 also provides that the update to the conversion factor could range up to -13% (current law allows up to a -7% update). To learn more on the background of this provision and details of the Sustainable Growth Rate (SGR), please read the section below entitled *"Background Information on Medicare Physician's Payments."*

Bonus Payments and Quality of Care Reporting. The bill directs HHS to implement a system for reporting on quality of care and would provide a 1.5% update bonus payment from July to December 2007, for physicians that participate in this reporting. In recent years there has been a large government push to require pay for performance standards to be tied to physicians Medicare reimbursement payments to control spiraling medical costs. This would require physicians to report on every aspect of their doctor patient interaction so the government could review and then measure quality of care to reimburse the physicians. This

issue is a highly controversial issue, as there has been no discussion on who sets the "quality standards" and who would define what quality looks like under such a system. Opponents of quality reporting provisions would argue that quality of care can only be determined by the patient and their doctor.

Update Not Included in SGR for 2008. H.R. 6408 would provide that the 0% update for 2007 is not to be included in the calculation of SGR for 2008. Established in 1998, SGR is a target for aggregate growth in Medicare spending on physician services, designed to control overall Medicare spending in this category. SGR is generated by a complex formula which takes into account the previous year's physician reimbursement spending. As such, if spending is higher in 2007 than is allowed by SGR, then in 2008, the SGR calculation would provide for a reduction in spending in order to contain growth. This provision would prohibit the inclusion of the 0% update in the calculation of SGR for 2008, and therefore, likely increase spending next year, as SGR would not reflect the need to reduce spending in 2008 because of increased spending in 2007.

Administrative Funding. H.R. 6408 would direct HHS to transfer **$60 million** from the Federal Supplementary Medical Insurance Trust Fund (the Part B Trust Fund) to the CMS Program Management Account for FY07, FY08, and FY09. This funding would be primarily used to implement the quality reporting requirements in the legislation.

New $1.35 Billion Fund. H.R. 6408 would direct HHS to establish a Physician Assistance and Quality Initiative Fund, and **authorizes $1.35 billion** for the fund. According to the text, this $1.35 billion fund can be used "for physician payment and quality improvement initiatives, which may include application of an adjustment to the update of the conversation factor." Essentially, this fund may be used for virtually anything, including updating the conversion factor.

Medicare Stabilization Fund. H.R. 6408 would eliminate the Medicare Advantage Stabilization Fund, which was created by the Medicare Modernization Act as an incentive mechanism. According to CBO, this provision would save $6.5 billion over 10 years, and would be used to partially offset the cost of the bill's spending provisions.

Renal Disease Facilities. Directs HHS to increase by 1.6%, the update for end stage renal disease (kidney disease) facilities for 2007.

Medicare Medical Home Demonstration Project. Directs HHS to **establish a medical home demonstration project** to redesign the health care delivery system to provide targeted, accessible, continuous and coordinated, family-centered care to high-need populations.

TMA and Title V Extension. H.R. 6408 would extend for six months (until June 30, 2007), both the authorization for Title V programs (abstinence education programs), and the authorization for Transitional Medical Assistance (Medicaid benefits for low-income families transitioning from welfare to work).

New Grants for Vaccine Against Valley Fever. Authorizes $40 million for HHS to make grants for the purpose of conducting research toward the development of a vaccine against coccidioidomycosis (Valley Fever).

Background Information on Medicare Physician's Payments. Under current Medicare law, doctors providing health care services to Part B enrollees are compensated through a "fee-for-service" system, in which physician payments are distributed on a per-service basis, as determined by a fee schedule and an annual conversion factor (a formula dollar amount). The fee schedule assigns "relative values" to each type of provided service. Relative value reflects physicians' work time and skill, average medical practice expenses, and geographical adjustments. In order to determine the physician payment for a specific service, the conversion factor ($37.8975 in 2006) is multiplied by the relative value for that service. For example, if a routine office visit is assigned a relative value of 2.1, then Medicare would provide the physician with a payment of $79.58 for that service. ($37.8975 x 2.1)

Medicare law requires that the conversion factor be updated each year. The formula used to determine the annual update takes into consideration of the following factors:

- Medicare economic index (MEI) – cost of providing medical care;
- Sustainable Growth Rate (SGR) – target for aggregate growth in Medicare physician payments; and
- Performance Adjustment – an adjustment ranging from -7% to +3%, to bring the MEI change in line with what is allowed under SGR, in order to restrain overall spending.

Every November, CMS announces the statutory annual update to the conversion factor for the subsequent year. The new conversion factor is calculated by increasing or decreasing the previous year's factor by the annual update. For example, if the 2006 conversion factor was $5.00, and the annual update announced by CMS is +1.5%, then the 2007 conversion factor would be $5.08. However, if annual update was -1.5%, then the 2007 conversion factor would be $4.92. (5.00 +/- [5.00 x .015])

From 2002 to 2006, the statutory formula calculation resulted in a negative update, which would have reduced physician payments, but not overall physician spending. The negative updates occurred because Medicare spending on physician payments increased the previous year beyond what is allowed by SGR. The SGR mechanism is designed to balance the previous year's increase in physician spending, with a decrease in the next year, in order to maintain the aggregate growth targets. Thus, in light of increased Medicare spending in recent years, the statutory formula has resulted in negative annual updates. However, since 2003, Congress has chosen to override current law, providing doctors with increases each year, and level funding in 2006. The specific data for each year is outlined in the following table.

Year	**Statutory Annual Update (%)**	**Congressional "Fix" to the Update (%)***	**Conversion Factor**
2002	-5.4	-5.4**	$36.1992
2003	-4.4	+1.6	$36.7856

2004	-4.5	+1.5	$37.3374
2005	-3.3	+1.5	$37.8975
2006	-4.4	0	$37.8975

*The annual update that *actually went into effect* for that year
** CMS made other adjustments, as provided by law, which resulted in a net update of - 4.8%, however Congress did not act to override the -5.4% statutory update.

OCS Drilling

H.R. 6408 would provide for expanded oil and gas leasing on the Outer Continental Shelf (OCS), the underwater lands adjacent to the coastal areas of the United States. That is, under S. 3711, the Secretary of the Interior would offer some OCS areas for leasing that otherwise could not be leased over the next 10 years under current law. Highlights of the bill are as follows:

- Allows OCS oil and gas leasing in two areas of the Gulf of Mexico ("181 area" and "181 south area") not currently available for such leasing.

- Places certain OCS areas off the coast of Florida under moratorium for oil and gas leasing through June 30, 2022. Entities that currently have leases in certain of these newly off-limits areas would be eligible to receive royalty and bonus credits equal to the value of the bonus bid plus any rental paid for the lease as of the date the lessee notifies the Secretary of the decision to exchange the lease. Such credits could only be used for new leases in the Gulf of Mexico.

- Reserves the United States' right to designate national defense areas on the Outer Continental Shelf.

- Allocates revenues from the newly-allowed OCS leasing, as follows:
  --50% to the general fund of the U.S. Treasury
  --50% to a special fund in the U.S. Treasury (capped at $500 million for each of fiscal years 2016 through 2055), for distribution as mandatory spending without further appropriation (and not in place of any existing funds), as follows:
    --75% to the states of Alabama, Louisiana, Mississippi, and Texas
    --25% to provide financial assistance to states in accordance with Section 6 of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460L-8) [funds for land and water conservation programs]

- Allocates the funds from the "75%" line above to each of the four states in amounts (based on a formula established by the Secretary by regulation) that are inversely proportional to the respective distances between the point on the coastline of each state that is closest to the geographic center of the applicable leased tract (with no state receiving less than 10% of the funds allocated to the four states under this section). 20% of each state's share under this section would have to go to coastal political subdivisions (as defined in current law). Up to and including fiscal years 2016, this

revenue-sharing could be on new leases in presently accessible areas. After 2016, the revenue-sharing would be just in the areas made accessible by this legislation.

- Requires that the funds from the "75%" line above be used only for:
  - --Projects and activities for the purposes of coastal protection, including conservation, coastal restoration, hurricane protection, and infrastructure directly affected by coastal wetland losses;
  - --Mitigation of damage to fish, wildlife, or natural resources;
  - --Implementation of a federally-approved marine, coastal, or comprehensive conservation management plan;
  - --Mitigation of the impact of OCS activities through the funding of onshore infrastructure projects; and
  - --Planning assistance and the administrative costs of complying with this section (administrative costs limited to 3% of funds received under this section).

Additional Background: The House passed a related bill, H.R. 4761, on June 29, 2006, by a vote of 232-187: http://clerk.house.gov/cgi-bin/vote.asp?year=2006&rollnumber=356. The House bill would allow for considerably more leasing on the OCS, but also contains some new programs and extraneous provisions (such as funding for the DC metro).

To read the RSC Legislative Bulletin on H.R. 4761, visit this webpage: http://www.house.gov/pence/rsc/doc/LB_062906_OCS.doc. To read the RSC document on the amendments to H.R. 4761 (amendment numbers 1, 2, and 3 passed; amendment numbers 4 and 5 failed), visit this webpage: http://www.house.gov/pence/rsc/doc/LB_062906_OCSAmdts.doc. The amendments document also indicates the results of RSC negotiations to bring the cost of the bill down so that it saves money over ten years.

According to the House Resources Committee, "the U.S. is more than 60 percent dependent on foreign sources of oil to meet our domestic energy requirements." The committee also points out that we are nearly 100% dependent on crude oil for our transportation fuel, and population increases continue to strain our energy needs.

Under current law, moratoria through June 2012 generally prohibit new leasing and pre-leasing activities in most OCS areas outside of the western and central Gulf of Mexico (though leasing occurs in small parts of the eastern Gulf of Mexico and the Alaskan OCS).

The House bill (H.R. 4761) has some of the same language that was originally part of the House's Deficit Reduction Act (H.R. 4241) last year. To see the RSC Legislative Bulletin on last year's OCS language, which was not included in the final spending reconciliation bill signed into law, visit this webpage and scroll to page 4: http://www.house.gov/pence/rsc/doc/LB%2011-08-05--Resources%20Reconciliation.doc.

Possible Conservative Concerns: Some conservatives may be concerned about the mandatory spending nature of the revenue-sharing provisions with the states. Other conservatives may

feel that this legislation does not open up the OCS for leasing the way the House bill would have. However, because the Senate bill saves money over ten years (within the budget window) and expands *some* OCS leasing, any conservative opposition to the Senate bill is not expected to be widespread.

Tax Extenders and Other Tax Provisions

H.R. 6408 would extend through the end of 2007 (except where noted) the following provisions that have expired or are about to expire:

- **Higher Education Expenses**. Allows taxpayers (including non-itemizers) to deduct up to $4,000 (depending on income) of tuition and other higher education enrollment expenses, in lieu of claiming the HOPE or Lifetime Learning tax credits.

- **New Markets Tax Credit**. Extends thru 2008 the New Markets Tax Credit (a credit to taxpayers who invest in businesses located in qualified low-income neighborhoods). The bill also requires that the Secretary of the Treasury prescribe regulations to ensure that non-metropolitan counties receive a proportional allocation of qualified equity investments.

- **State and Local Sales Taxes.** Allows all taxpayers to deduct either their applicable state and local *sales* taxes (actual or estimated) or their applicable state and local *income* taxes.

- **Research and Development (R&D) Tax Credit**. Extends the R&D tax credit. Effective January 1, 2007, the value of the alternative incremental credit would increase. Adds a new alternative simplified credit.

- **WOTC.** Allows employers to claim the maximum $2,400 Work Opportunity Tax Credit (WOTC) when they hire individuals from eight "target" groups (such as families receiving public assistance, high-risk youths, ex-felons, qualified veterans, and food stamp recipients under the age of 35 [up from age 25 in current law]). The credit applies only to cash wages. Combines the WOTC with the WTW credit in 2007 (see subsequent paragraph). Key modifications of the combined credit include expanded eligibility for WOTC (raised age ceiling for food stamp recipients from 25 to 40), revised eligibility requirements for ex-felons (without regard to family income), and a modification of the filing deadline for WOTC claimants from 21 to 28 days.

- **WTW**. Allows employers to claim the Welfare to Work (WTW) tax credit when they hire individuals who have received public assistance for 18 months or who have exhausted their benefits. The maximum credit is $3,500 during the employee's first year of employment and $5,000 during the second year. The credit applies to cash wages and to certain non-cash benefits paid to qualified employees. Combines the WOTC with the WTW credit in 2007 (see previous paragraph).

- **Combat Pay**. Gives military personnel the option of including combat pay in the earned income credit calculation.

- **Qualified Zone Academy Bonds**. Allows for the issuance of Qualified Zone Academy Bonds (QZABs), which are tax-credit bonds issued by states and local governments to help repair schools, purchase school equipment, and train teachers in economically distressed areas. Unlike typical tax-exempt bonds, QZAB holders may claim a federal income tax credit in lieu of receiving tax-free interest payments. The bond issuer must secure private-sector contributions of cash, equipment, training, or other property and services equal to 10% of the bond proceeds. No more than $400 million in QZABs can be issued nationwide each year (distributed in proportion to each state's population in poverty). Issuers would have to reasonably expect to, and actually spend, 95% of the proceeds from the sale of QZABs on QZAB property within five years of the date of issuance.

- **Teacher Classroom Expenses**. Allows qualified teachers (including those who do not itemize their deductions) to deduct up to $250 of out-of-pocket expenses incurred to purchase books, supplies, computers, and other classroom equipment.

- **Brownfield Expensing.** Allows taxpayers to immediately deduct (against the AMT and regular tax calculations) all the costs incurred in cleaning up certain contaminated sites ("brownfields") not included on the national priorities list. The bill also expands the definition of an eligible contaminated site to include sites contaminated by petroleum products.

- **District of Columbia**. Allows certain District of Columbia businesses in economically depressed zones to claim certain tax benefits (such as a 20% wage credit, an additional $35,000 of small business expensing for qualified property, expanded tax-exempt-bond financing for certain facilities, and a zero capital gains rate for the sale of certain qualified assets). In addition, the bill allows first-time homebuyers in the District to claim a maximum $5,000 (phased-down for higher-income individuals) nonrefundable tax credit for the purchase of a principal residence.

- **Indian Reservations**. Allows employers on Indian reservations to receive a 20% tax credit on the first $20,000 of wages and employee health insurance costs to the extent these costs exceed the amount paid by the employer in 1993. Also allows businesses located on Indian reservations to accelerate their depreciation schedules for property that is primarily used to conduct business on the reservation.

- **Leasehold Improvements**. Reduces the depreciation period for certain interior improvements to nonresidential property being leased by tenants from 39 years to 15 years.

- **Restaurant Improvements and Construction**. Reduces the depreciation period for certain improvements to restaurants AND new restaurant construction from 39 years to 15 years.

- **Rum Excuse Tax Transfers**. Distilled spirits are subject to an excise tax equal to $13.50 per-proof-gallon. Of the total amount collected on imported rum, $13.25 per-proof-gallon is transferred to Puerto Rico and the Virgin Islands.

- **Mental Health Parity**. Imposes a $100 per day excise tax penalty (up to a cap) on group health plans that fail to implement mental health parity (i.e. on plans that impose dollar limits for mental health benefits that are different from the limits on other medical benefits).

- **Computer Equipment**. Allows for an enhanced tax deduction for corporate donations of certain computer equipment to schools or public libraries (within three years of the equipment's purchase or construction). "Enhanced" means higher than the price the corporation paid for the equipment (calculated by a specific formula).

- **Archer MSAs**. Allows individuals and employers to make tax-deductible contributions to an Archer MSA (medical savings account) to pay for health care expenses. The distributions are tax-free when used to pay for eligible medical expenses and are subject to a penalty when not used for medical expenses before age 65.

- **Oil And Gas from Marginal Wells**. Allows independent oil and gas producers to use the "percentage depletion" method of accounting (without a cap) when filing their tax returns. Under this method of accounting, 15% of the taxpayer's gross income from an oil- or gas-producing property can be deducted each year.

- **American Samoa**. Allows certain domestic corporations to claim tax credits (determined by a formula) for their investment and business activities in American Samoa.

- **IRS Undercover Operations and Disclosure**. Extends the IRS' authority to use income earned by an undercover operation to pay additional expenses incurred in such undercover operation. Also extends the IRS' authority to share certain tax information with certain other federal and/or state authorities in order to: (1) facilitate combined employment tax reporting, (2) investigate terrorist activities, and (3) facilitate the repayment of student loans that are contingent on income.

- **Energy Tax Provisions**. Extends through 2008 numerous energy provisions that will expire at the end of 2007. Highlights include extensions of the:
  - --credit for electricity produced from certain renewable resources
  - --credit to holders of clean renewable energy bonds
  - --deduction for energy efficient commercial buildings
  - --credit for new energy efficient homes
  - --credit for residential energy efficient property
  - --credit for businesses producing electricity from solar energy, fuel cells or microturbines

--reduced excise tax rate for qualified methanol or ethanol fuel produced from coal.

- **Health Savings Accounts**. Includes Rep. Eric Cantor's health savings account (HSA) legislation (H.R. 6134), which would make a variety of changes to rules regarding HSAs. For example, the bill would allow rollovers of health flexible spending arrangements (FSAs) or health reimbursement arrangements (HRAs) into HSAs, repeal the annual plan deductible limitation on HSA contributions, increase the HSA contribution limit for individuals becoming eligible after the beginning of the year, and permit one-time rollovers from Individual Retirement Accounts (IRAs) into HSAs.

Other Provisions (highlights):

- **Incentive Stock Options—AMT**. Allows individuals to take advantage of a refundable credit with respect to certain long-term unused AMT credits existing prior to January 1, 2013. The annual credit amount, subject to a phase-out, is the greater of (1) the lesser of $5,000 or the amount of the long-term unused AMT credit, or (2) 20% of the amount of the long-term unused AMT credit.

- **Mine Safety**. Extends through the end of 2008 the 50% expensing for certain equipment expenditures related to safety equipment for underground U.S. mines and the tax credits for certain mine rescue team training programs.

- **Whistleblowers**. Reforms the reward program for individuals who provide information to the Secretary of the Treasury regarding violations of the tax laws. The provision establishes a reward range for such "whistleblowers" of 15% to 30% of proceeds collected by the IRS (subject to certain exceptions) where the amount in dispute exceeds $2 million. The bill would also provide the Secretary with regulatory authority to create a Whistleblower Office within the IRS to administer the reward program.

- **Vaccines**. Adds the meningococcal and human papillomavirus vaccines to the list of taxable vaccines.

- **Permanency of Reconciliation Provisions**. Makes permanent a variety of provisions in the *Tax Increase Prevention and Reconciliation Act of 2005* that were temporary:

  - **Environmental Cleanup Funds**. Exempts environment cleanup settlement funds, escrow accounts, and similar funds from federal taxation, if certain standards and requirements are met (as detailed in the legislation).

  - **Active Trade or Business Test**. Modifies the definition of "active conduct of a trade or business" (as it relates to certain corporate distributions) to treat a corporation and the corporation's separate affiliated group (i.e. holding company) as one corporation. The Ways & Means Committee asserts that this provision has the effect of, "allow[ing] corporations to avoid costly and inefficient internal

restructurings prior to engaging in certain corporate distributions to their shareholders."

- **Veterans' Mortgages**. Makes all veterans (not just ones who served prior to 1977, as in current law) eligible to participate in state home mortgage programs funded by Qualified Veterans' Mortgage Bonds (which are aimed at financing affordable mortgages for veterans). Veterans would have to apply for financing under such a program within 25 years of the last day of active military service. The bill also alters the caps on bond issues so that the current-law formula is replaced with phased-in hard-dollar limits for participating states and removes the cap altogether in 2011 and thereafter.

- **Self-Created Musical Works**. Treats the sale or exchange of self-created musical works as capital gains (rather than as regular income, as under current law).

- **Tonnage Tax**. Reduces from 10,000 to 6,000 the minimum deadweight tons required for U.S.-flagged vessels (that participate in commercial foreign trade) to opt into the alternative tonnage tax regime. The Ways & Means Committee reports that this regime is generally more favorable for vessels (i.e. offers them lower tax assessments). This tonnage revision would expire at the end of 2010.

- **Permanent University Fund**. Codifies and makes more favorable the IRS regulations that govern the tax treatment of tax-exempt bonds issued by the Permanent University Fund (which is used to finance the activities of certain state universities).

- **Great Lakes Shipping**. Permanently modifies the treatment of shipping within the Great Lakes to ensure that vessel operators in this region can qualify for the alternative tonnage tax regime.

- **Veterans Mortgages**. Makes affordable mortgages more accessible to veterans by providing them with a one-time exception (thru December 31, 2007) from the mortgage revenue bond first-time homebuyer requirement.

- **Intelligence Community Home Sales**. Excludes the gain from the sale of a principal residence by certain intelligence community employees.

- **Judge Property Sales**. Eliminates capital gains tax on property sold by federal judges to avoid conflicts of interest.

- **Mortgage Insurance Premiums**. Establishes an itemized deduction for the cost of premiums for mortgage insurance on a qualified personal residence, phased-out ratably by 10% for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000.

Additional Background: To read the RSC Legislative Bulletin on the tax reconciliation bill, as it first passed the House, visit this webpage: http://www.house.gov/pence/rsc/doc/LB_120805_taxreconcil.pdf.

To read the RSC Legislative Bulletin on the tax reconciliation bill, as it was signed into law, visit this webpage: http://www.house.gov/pence/rsc/doc/LB_051006_taxreconcilconfrpt.doc.

To read the RSC Legislative Bulletin on "the trifecta" (H.R. 5970), as it passed the House this past summer, visit this webpage: http://www.house.gov/pence/rsc/doc/LB_072806--minwageAMLdeathtaxextenders.doc.

To read an RSC document on impending tax increases that will happen without legislative action, visit this webpage: http://www.house.gov/pence/rsc/doc/082306_impendingtaxincreasesNEW.doc.

Miscellaneous Provisions

- **Imported Tobacco**. Stipulates that the quantity exception allowed for cigarettes purchased for "personal use" does not apply to cigarettes imported via "delivery sale" (ordered by phone, mail, or on the internet). Also subjects imported smokeless tobacco products to the same provisions and regulations as imported cigarettes (such as packaging, label warnings, advertising, etc.). Provides a personal use exception to the general quantity restrictions for imported tobacco products for individuals who reland or receive tobacco in the quantity allowed to enter free of tax and duty under the Harmonized Tariff Schedule of the U.S.

- **Federal Land Withdrawals**. Withdraws certain specified federal land, and interests in certain federal land, from location, entry, and patent under the mining laws, including certain lands within the Lewis and Clark National Forest, the Flathead National Forest, and the Rocky Mountain Front Mineral withdrawal area.

- **Sales of Mineral Interests**. Provides additional tax incentives on a conservation sale of a qualifying mineral or geothermal interest, stating that gross income does not include 25% of the qualifying gain. Stipulates that a tax will be imposed on any subsequent transfer (by sale or other transfer) by an eligible owner of an interest (land) acquired from a conservation sale, and states the tax will consist of 20% of the fair market value plus the highest rate specified in the relevant Code times any gain realized by the transfer.

- **DC School Choice**. Increases the allowable scholarship under the DC School Choice Program to a student from a household whose income does not exceed 200% of the poverty line up to 300% of the poverty line, if the student's first academic year of participation ends in June 2005 or June 2006, or whose second year ends on or before June 2009.

- **Elder Abuse**. Directs the Secretary of Health and Human Services to conduct a study on establishing a uniform national database on elder abuse, and submit a report to Congress on the completion of the study; authorizes $1 million over the FY07-FY08 period.

Committee Action: H.R. 6408 was introduced on Thursday, December 7, 2006, and referred to a variety of committees, neither of which took any subsequent official action.

Possible Conservative Concerns: Conservatives may be concerned that this bill appears to violate the FY2007 budget resolution by billions of dollars (the mine fund language and the doc fix/health care language).

Cost to Taxpayers: A unified cost and revenue estimate for the bill in its entirety is unavailable.

However, CBO estimates that the Abandoned Mine Fund language would increase mandatory spending by $4.9 billion over ten years.

Furthermore, CBO estimates that the health care provisions would increase mandatory spending by a net $1.7 billion over five years, and $4.9 billion over ten years. Press reports have indicated that the 0% update to the payments for physicians is fully offset by the elimination of the Medicare Stabilization Fund. Although this particular provision is offset, there are other large spending items in the health care provisions, which are not fully offset.

The Joint Committee on Taxation estimates that the revenue portions of this bill would reduce revenues by $15.5 billion in FY2007, by $38.1 billion over the FY2007-FY2011 period, and by $45.1 billion over the FY2007-FY2016 period.

Lastly, CBO estimates that the OCS drilling portion of this bill would have no effect on spending in FY2007, would reduce mandatory spending by $140 million in FY2008, would reduce mandatory spending by $241 million over the FY2007-FY2011 period, and would reduce mandatory spending by $926 million over the FY2007-FY2016 period.

Does the Bill Expand the Size and Scope of the Federal Government?: Yes—new programs, new taxpayer liabilities, etc.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: Although a formal analysis of the mandates is unavailable, the bill does not appear to contain any.

Constitutional Authority: A committee report citing constitutional authority is unavailable.

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