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1 (1) by striking "67.5 cents (56.25 cents on pipe
 2 tobacco removed during 1991 or 1992)" and insert-
 3 ing "the amount determined in accordance with the
 4 following table", and

5 (2) by adding at the end the following:

"In the case of pipe tobacco removed—	The tax per pound is—
After July 31, 1995 and before January 1, 1997	\$1.10
During 1997	\$1.38
During 1998	\$1.66
After December 31, 1998	\$1.94."

6 (h) APPLICATION OF TAX INCREASE TO PUERTO
 7 RICO.—Section 5701 is amended by adding at the end the
 8 following new subsection:

9 "(h) APPLICATION OF TAXES TO PUERTO RICO.—
 10 Notwithstanding subsections (b) and (c) of section 7653
 11 and any other provision of law—

12 "(1) IN GENERAL.—On tobacco products and
 13 cigarette papers and tubes, manufactured in or im-
 14 ported into the Commonwealth of Puerto Rico, there
 15 is hereby imposed a tax at the rate equal to the ex-
 16 cess of—

17 "(A) the rate of tax applicable under this
 18 section to like articles manufactured in the
 19 United States, over

20 "(B) the rate referred to in subparagraph
 21 (A) as in effect on the day before the date of
 22 the enactment of the Health Reform Act.

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1 “(2) SHIPMENTS TO PUERTO RICO FROM THE
2 UNITED STATES.—Only the rates of tax in effect on
3 the day before the date of the enactment of the
4 Health Reform Act shall be taken into account in
5 determining the amount of any exemption from, or
6 credit or drawback of, any tax imposed by this sec-
7 tion on any article shipped to the Commonwealth of
8 Puerto Rico from the United States.

9 “(3) SHIPMENTS FROM PUERTO RICO TO THE
10 UNITED STATES.—The rates of tax taken into ac-
11 count under section 7652(a) with respect to tobacco
12 products and cigarette papers and tubes coming into
13 the United States from the Commonwealth of Puer-
14 to Rico shall be the rates of tax in effect on the day
15 before the date of the enactment of the Health Re-
16 form Act.

17 “(4) DISPOSITION OF REVENUES.—The provi-
18 sions of section 7652(a)(3) shall not apply to any
19 tax imposed by reason of this subsection.”

20 (i) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to articles removed (as defined in
22 section 5702(k) of the Internal Revenue Code of 1986,
23 as amended by this Act) after July 31, 1995.

24 (j) FLOOR STOCKS TAXES.—

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1 (1) IMPOSITION OF TAX.—On tobacco products
2 and cigarette papers and tubes manufactured in or
3 imported into the United States or the Common-
4 wealth of Puerto Rico which are removed before any
5 tax-increase date and held on such date for sale by
6 any person, there is hereby imposed a tax in an
7 amount equal to the excess of—

8 (A) the tax which would be imposed under
9 section 5701 of the Internal Revenue Code of
10 1986 on the article if the article had been re-
11 moved on such date, over

12 (B) the prior tax (if any) imposed under
13 section 5701 or 7652 of such Code on such ar-
14 ticle.

15 (2) AUTHORITY TO EXEMPT CIGARETTES HELD
16 IN VENDING MACHINES.—To the extent provided in
17 regulations prescribed by the Secretary, no tax shall
18 be imposed by paragraph (1) on cigarettes held for
19 retail sale on any tax-increase date, by any person
20 in any vending machine. If the Secretary provides
21 such a benefit with respect to any person, the Sec-
22 retary may reduce the \$500 amount in paragraph
23 (3) with respect to such person.

24 (3) CREDIT AGAINST TAX.—Each person shall
25 be allowed as a credit against the taxes imposed by

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1 paragraph (1) on each tax-increase date an amount
2 equal to \$500. Such credit shall not exceed the
3 amount of taxes imposed by paragraph (1) on such
4 date for which such person is liable.

5 (4) LIABILITY FOR TAX AND METHOD OF PAY-
6 MENT.—

7 (A) LIABILITY FOR TAX.—A person hold-
8 ing any article on any tax-increase date to
9 which any tax imposed by paragraph (1) applies
10 shall be liable for such tax.

11 (B) METHOD OF PAYMENT.—The tax im-
12 posed by paragraph (1) shall be paid in such
13 manner as the Secretary shall prescribe by reg-
14 ulations.

15 (C) TIME FOR PAYMENT.—The tax im-
16 posed by paragraph (1) on any tax-increase
17 date shall be paid on or before the date which
18 is 3 months after such tax-increase date.

19 (5) ARTICLES IN FOREIGN TRADE ZONES.—
20 Notwithstanding the Act of June 18, 1934 (48 Stat.
21 998, 19 U.S.C. 81a) and any other provision of law,
22 any article which is located in a foreign trade zone
23 on any tax-increase date shall be subject to the taxes
24 imposed by paragraph (1) if—

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1 (A) internal revenue taxes have been deter-
2 mined, or customs duties liquidated, with re-
3 spect to such article before such date pursuant
4 to a request made under the 1st proviso of sec-
5 tion 3(a) of such Act, or

6 (B) such article is held on such date under
7 the supervision of a customs officer pursuant to
8 the 2d proviso of such section 3(a).

9 (6) DEFINITIONS.—For purposes of this
10 subsection—

11 (A) TAX-INCREASE DATE.—The term “tax-
12 increase date” means August 1, 1995, January
13 1, 1997, January 1, 1998, and January 1,
14 1999.

15 (B) OTHER DEFINITIONS.—Terms used in
16 this subsection which are also used in section
17 5702 of the Internal Revenue Code of 1986
18 shall have the respective meanings such terms
19 have in such section, as amended by this Act.

20 (C) SECRETARY.—The term “Secretary”
21 means the Secretary of the Treasury or his del-
22 egate.

23 (7) CONTROLLED GROUPS.—Rules similar to
24 the rules of section 5061(e)(3) of such Code shall
25 apply for purposes of this subsection.

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1 (8) OTHER LAWS APPLICABLE.—All provisions
2 of law, including penalties, applicable with respect to
3 the taxes imposed by section 5701 of such Code
4 shall, insofar as applicable and not inconsistent with
5 the provisions of this subsection, apply to the floor
6 stocks taxes imposed by paragraph (1), to the same
7 extent as if such taxes were imposed by such section
8 5701. The Secretary may treat any person who bore
9 the ultimate burden of the tax imposed by para-
10 graph (1) as the person to whom a credit or refund
11 under such provisions may be allowed or made.

12 **SEC. 6102. MODIFICATIONS OF CERTAIN TOBACCO TAX**
13 **PROVISIONS.**

14 (a) EXEMPTION FOR EXPORTED TOBACCO PROD-
15 UCTS AND CIGARETTE PAPERS AND TUBES TO APPLY
16 ONLY TO ARTICLES MARKED FOR EXPORT.—

17 (1) Subsection (b) of section 5704 is amended
18 by adding at the end the following new sentence:
19 “Tobacco products and cigarette papers and tubes
20 may not be transferred or removed under this sub-
21 section unless such products or papers and tubes
22 bear such marks, labels, or notices as the Secretary
23 shall by regulations prescribe.”

24 (2) Section 5761 is amended by redesignating
25 subsections (c) and (d) as subsections (d) and (e),

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1 respectively, and by inserting after subsection (b)
2 the following new subsection:

3 “(c) SALE OF TOBACCO PRODUCTS AND CIGARETTE
4 PAPERS AND TUBES FOR EXPORT.—Except as provided
5 in subsections (b) and (d) of section 5704—

6 “(1) every person who sells, relands, or receives
7 within the jurisdiction of the United States any to-
8 bacco products or cigarette papers or tubes which
9 have been labeled or shipped for exportation under
10 this chapter,

11 “(2) every person who sells or receives such
12 relanded tobacco products or cigarette papers or
13 tubes, and

14 “(3) every person who aids or abets in such
15 selling, relanding, or receiving,

16 shall, in addition to the tax and any other penalty provided
17 in this title, be liable for a penalty equal to the greater
18 of \$1,000 or 5 times the amount of the tax imposed by
19 this chapter. All tobacco products and cigarette papers
20 and tubes relanded within the jurisdiction of the United
21 States, and all vessels, vehicles, and aircraft used in such
22 relanding or in removing such products, papers, and tubes
23 from the place where relanded, shall be forfeited to the
24 United States.”

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1 (3) Subsection (a) of section 5761 is amended
2 by striking "subsection (b)" and inserting "sub-
3 section (b) or (c)".

4 (4) Subsection (d) of section 5761, as redesign-
5 ated by paragraph (2), is amended by striking
6 "The penalty imposed by subsection (b)" and insert-
7 ing "The penalties imposed by subsections (b) and
8 (c)".

9 (5)(A) Subpart F of chapter 52 is amended by
10 adding at the end the following new section:

11 **"SEC. 5754. RESTRICTION ON IMPORTATION OF PRE-**
12 **VIOUSLY EXPORTED TOBACCO PRODUCTS.**

13 "(a) IN GENERAL.—Tobacco products and cigarette
14 papers and tubes previously exported from the United
15 States may be imported or brought into the United States
16 only as provided in section 5704(d). For purposes of this
17 section, section 5704(d), section 5761, and such other pro-
18 visions as the Secretary may specify by regulations, ref-
19 erences to exportation shall be treated as including a ref-
20 erence to shipment to the Commonwealth of Puerto Rico.

21 "(b) CROSS REFERENCE.—

**"For penalty for the sale of tobacco products and
 cigarette papers and tubes in the United States
 which are labeled for export, see section 5761(c)."**

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1 (B) The table of sections for subpart F of chap-
2 ter 52 is amended by adding at the end the following
3 new item:

“Sec. 5754. Restriction on importation of previously exported to-
bacco products.”

4 (b) IMPORTERS REQUIRED TO BE QUALIFIED.—

5 (1) Sections 5712, 5713(a), 5721, 5722,
6 5762(a)(1), and 5763(b) and (c) are each amended
7 by inserting “or importer” after “manufacturer”.

8 (2) The heading of subsection (b) of section
9 5763 is amended by inserting “QUALIFIED IMPORT-
10 ERS,” after “MANUFACTURERS.”

11 (3) The heading for subchapter B of chapter 52
12 is amended by inserting “**and Importers**” after
13 “**Manufacturers**”.

14 (4) The item relating to subchapter B in the
15 table of subchapters for chapter 52 is amended by
16 inserting “and importers” after “manufacturers”.

17 (c) REPEAL OF TAX-EXEMPT SALES TO EMPLOYEES
18 OF CIGARETTE MANUFACTURERS.—

19 (1) Subsection (a) of section 5704 is
20 amended—

21 (A) by striking “EMPLOYEE USE OR” in
22 the heading, and

23 (B) by striking “for use or consumption by
24 employees or” in the text.

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1 (2) Subsection (e) of section 5723 is amended
2 by striking "for use or consumption by their employ-
3 ees, or for experimental purposes" and inserting
4 "for experimental purposes".

5 (d) REPEAL OF TAX-EXEMPT SALES TO UNITED
6 STATES.—Subsection (b) of section 5704 is amended by
7 striking "and manufacturers may similarly remove such
8 articles for use of the United States,".

9 (e) BOOKS OF 25 OR FEWER CIGARETTE PAPERS
10 SUBJECT TO TAX.—Subsection (c) of section 5701 is
11 amended by striking "On each book or set of cigarette
12 papers containing more than 25 papers," and inserting
13 "On cigarette papers,".

14 (f) STORAGE OF TOBACCO PRODUCTS.—Subsection
15 (k) of section 5702 is amended by inserting "under section
16 5704" after "internal revenue bond".

17 (g) AUTHORITY TO PRESCRIBE MINIMUM MANUFAC-
18 TURING ACTIVITY REQUIREMENTS.—Section 5712 is
19 amended by striking "or" at the end of paragraph (1),
20 by redesignating paragraph (2) as paragraph (3), and by
21 inserting after paragraph (1) the following new paragraph:

22 “(2) the activity proposed to be carried out at
23 such premises does not meet such minimum capacity
24 or activity requirements as the Secretary may pre-
25 scribe, or”.

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1 (h) SPECIAL RULES RELATING TO PUERTO RICO
2 AND THE VIRGIN ISLANDS.—Section 7652 is amended by
3 adding at the end the following new subsection:

4 “(h) LIMITATION ON COVER OVER OF TAX ON TO-
5 BACCO PRODUCTS.—For purposes of this section, with re-
6 spect to taxes imposed under section 5701 or this section
7 on any tobacco product or cigarette paper or tube, the
8 amount covered into the treasuries of Puerto Rico and the
9 Virgin Islands shall not exceed the rate of tax under sec-
10 tion 5701 in effect on the article on the day before the
11 date of the enactment of the Health Reform Act.”

12 (i) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to articles removed (as defined in
14 section 5702(k) of the Internal Revenue Code of 1986,
15 as amended by this Act) after December 31, 1994.

16 **SEC. 6103. IMPOSITION OF EXCISE TAX ON MANUFACTURE**
17 **OR IMPORTATION OF ROLL-YOUR-OWN TO-**
18 **BACCO.**

19 (a) IN GENERAL.—Section 5701 (relating to rate of
20 tax), as amended by section 6101, is amended by redesi-
21 gnating subsections (g) and (h) as subsections (h) and (i)
22 and by inserting after subsection (f) the following new
23 subsection:

24 “(g) ROLL-YOUR-OWN TOBACCO.—On roll-your-own
25 tobacco, manufactured in or imported into the United

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1 States, there shall be imposed a tax of the amount deter-
 2 mined in accordance with the following table per pound
 3 (and a proportionate tax at the like rate on all fractional
 4 parts of a pound):

"In the case of roll-your-own tobacco removed—	The tax per pound is—
After July 31, 1995 and before January 1, 1997	\$1.10
During 1997	\$1.38
During 1998	\$1.66
After December 31, 1998	\$1.94."

5 (b) ROLL-YOUR-OWN TOBACCO.—Section 5702 (re-
 6 lating to definitions) is amended by adding at the end the
 7 following new subsection:

8 "(p) ROLL-YOUR-OWN TOBACCO.—The term 'roll-
 9 your-own tobacco' means any tobacco which, because of
 10 its appearance, type, packaging, or labeling, is suitable for
 11 use and likely to be offered to, or purchased by, consumers
 12 as tobacco for making cigarettes."

13 (c) TECHNICAL AMENDMENTS.—

14 (1) Subsection (c) of section 5702 is amended
 15 by striking "and pipe tobacco" and inserting "pipe
 16 tobacco, and roll-your-own tobacco".

17 (2) Subsection (d) of section 5702 is
 18 amended—

19 (A) in the material preceding paragraph
 20 (1), by striking "or pipe tobacco" and inserting
 21 "pipe tobacco, or roll-your-own tobacco", and

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1 (B) by striking paragraph (1) and insert-
2 ing the following new paragraph:

3 “(1) a person who produces cigars, cigarettes,
4 smokeless tobacco, pipe tobacco, or roll-your-own to-
5 bacco solely for the person’s own personal consump-
6 tion or use, and”.

7 (3) The chapter heading for chapter 52 is
8 amended to read as follows:

9 **“CHAPTER 52—TOBACCO PRODUCTS AND**
10 **CIGARETTE PAPERS AND TUBES”.**

11 (4) The table of chapters for subtitle E is
12 amended by striking the item relating to chapter 52
13 and inserting the following new item:

“CHAPTER 52. Tobacco products and cigarette papers and tubes.”

14 (d) EFFECTIVE DATE.—

15 (1) IN GENERAL.—The amendments made by
16 this section shall apply to roll-your-own tobacco re-
17 moved (as defined in section 5702(k) of the Internal
18 Revenue Code of 1986, as amended by this Act)
19 after July 31, 1995.

20 (2) TRANSITIONAL RULE.—Any person who—

21 (A) on the date of the enactment of this
22 Act is engaged in business as a manufacturer of
23 roll-your-own tobacco or as an importer of to-
24 bacco products or cigarette papers and tubes,
25 and

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1 (B) before August 1, 1995, submits an ap-
 2 plication under subchapter B of chapter 52 of
 3 such Code to engage in such business,
 4 may, notwithstanding such subchapter B, continue
 5 to engage in such business pending final action on
 6 such application. Pending such final action, all pro-
 7 visions of such chapter 52 shall apply to such appli-
 8 cant in the same manner and to the same extent as
 9 if such applicant were a holder of a permit under
 10 such chapter 52 to engage in such business.

11 **PART 2—HEALTH RELATED ASSESSMENTS**

12 **SEC. 6111. ASSESSMENTS ON INSURED AND SELF-INSURED**
 13 **HEALTH PLANS.**

14 (a) **GENERAL RULE.**—Subtitle D (relating to mis-
 15 cellaneous excise taxes) is amended by adding after chap-
 16 ter 36 the following new chapter:

17 **“CHAPTER 37—HEALTH RELATED**
 18 **ASSESSMENTS**

“SUBCHAPTER A. Insured and self-insured health plans.

19 **“Subchapter A—Insured and Self-Insured**
 20 **Health Plans**

“Sec. 4501. Health insurance and health-related administrative services.

“Sec. 4502. Self-insured health plans.

“Sec. 4503. Definitions and special rules.

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1 "SEC. 4501. HEALTH INSURANCE AND HEALTH-RELATED
2 ADMINISTRATIVE SERVICES.

3 "(a) IMPOSITION OF TAX.—There is hereby
4 imposed—

5 "(1) on each taxable health insurance policy, a
6 tax equal to 0.6 percent of the premiums received
7 under such policy, and

8 "(2) on each amount received for health-related
9 administrative services, a tax equal to 0.6 percent of
10 the amount so received.

11 "(b) LIABILITY FOR TAX.—

12 "(1) HEALTH INSURANCE.—The tax imposed
13 by subsection (a)(1) shall be paid by the issuer of
14 the policy.

15 "(2) HEALTH-RELATED ADMINISTRATIVE SERV-
16 ICES.—The tax imposed by subsection (a)(2) shall
17 be paid by the person providing the health-related
18 administrative services.

19 "(c) TAXABLE HEALTH INSURANCE POLICY.—For
20 purposes of this section—

21 "(1) IN GENERAL.—Except as otherwise pro-
22 vided in this section, the term 'taxable health insur-
23 ance policy' means any insurance policy providing
24 accident or health insurance with respect to individ-
25 uals residing in the United States.

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1 “(2) EXEMPTION OF CERTAIN POLICIES.—The
2 term ‘taxable health insurance policy’ does not in-
3 clude any insurance policy if substantially all of the
4 coverage provided under such policy relates to—

5 “(A) liabilities incurred under workers’
6 compensation laws,

7 “(B) tort liabilities,

8 “(C) liabilities relating to ownership or use
9 of property,

10 “(D) credit insurance,

11 “(E) coverage providing disability benefits
12 on account of sickness or injury, including
13 wages or payments in lieu of wages because of
14 any absence from work and benefits paid be-
15 cause of an inability to perform the material
16 and substantial duties of an individual’s regular
17 occupation, or

18 “(F) such other similar liabilities as the
19 Secretary may specify by regulations.

20 “(3) SPECIAL RULE WHERE POLICY PROVIDES
21 OTHER COVERAGE.—In the case of any taxable
22 health insurance policy under which amounts are
23 payable other than for accident or health coverage,
24 in determining the amount of the tax imposed by
25 subsection (a)(1) on any premium paid under such

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1 policy, there shall be excluded the amount of the
2 charge for the nonaccident or health coverage if—

3 “(A) the charge for such nonaccident or
4 health coverage is either separately stated in
5 the policy, or furnished to the policyholder in a
6 separate statement, and

7 “(B) such charge is reasonable in relation
8 to the total charges under the policy.

9 In any other case, the entire amount of the premium
10 paid under such a policy shall be subject to tax
11 under subsection (a)(1).

12 “(4) TREATMENT OF PREPAID HEALTH COV-
13 ERAGE ARRANGEMENTS.—

14 “(A) IN GENERAL.—In the case of any ar-
15 rangement described in subparagraph (B)—

16 “(i) such arrangement shall be treated
17 as a taxable health insurance policy,

18 “(ii) the payments or premiums re-
19 ferred to in subparagraph (B)(i) shall be
20 treated as premiums received for a taxable
21 health insurance policy, and

22 “(iii) the person referred to in sub-
23 paragraph (B)(i) shall be treated as the is-
24 suer.

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1 “(B) DESCRIPTION OF ARRANGEMENTS.—

2 An arrangement is described in this subpara-
3 graph if under such arrangement—

4 “(i) fixed payments or premiums are
5 received as consideration for any person’s
6 agreement to provide or arrange for the
7 provision of accident or health coverage to
8 residents of the United States, regardless
9 of how such coverage is provided or ar-
10 ranged to be provided, and

11 “(ii) substantially all of the risks of
12 the rates of utilization of services is as-
13 sumed by such person or the provider of
14 such services.

15 “(d) HEALTH-RELATED ADMINISTRATIVE SERV-
16 ICES.—For purposes of this section, the term ‘health-re-
17 lated administrative services’ means—

18 “(1) the processing of claims or performance of
19 other administrative services in connection with acci-
20 dent or health coverage under a taxable health in-
21 surance policy if the charge for such services is not
22 included in the premiums under such policy, and

23 “(2) processing claims, arranging for provision
24 of accident or health coverage, or performing other
25 administrative services in connection with an appli-

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1 cable self-insured health plan (as defined in section
2 4502(c)) established or maintained by a person
3 other than the person performing the services.

4 For purposes of paragraph (1), rules similar to the rules
5 of subsection (c)(3) shall apply.

6 **"SEC. 4502. SELF-INSURED HEALTH PLANS.**

7 "(a) IMPOSITION OF TAX.—In the case of any appli-
8 cable self-insured health plan, there is hereby imposed a
9 tax for each month equal to 0.6 percent of the sum of—

10 "(1) the accident or health coverage expendi-
11 tures for such month under such plan, and

12 "(2) the direct administrative expenditures for
13 such month under such plan.

14 "(b) LIABILITY FOR TAX.—

15 "(1) IN GENERAL.—The tax imposed by sub-
16 section (a) shall be paid by the plan sponsor.

17 "(2) PLAN SPONSOR.—For purposes of para-
18 graph (1), the term 'plan sponsor' means—

19 "(A) the employer in the case of a plan es-
20 tablished or maintained by a single employer,

21 "(B) the employee organization in the case
22 of a plan established or maintained by an em-
23 ployee organization, or

24 "(C) in the case of—

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1 “(i) a plan established or maintained
2 by 2 or more employers or jointly by 1 or
3 more employers and 1 or more employee
4 organizations,

5 “(ii) a voluntary employees’ bene-
6 ficiary association under section 501(c)(9),
7 or

8 “(iii) a plan described in subsection
9 (c)(2)(F),

10 the association, committee, joint board of trust-
11 ees, cooperative, or other similar group of rep-
12 resentatives of the parties who establish or
13 maintain the plan.

14 “(c) APPLICABLE SELF-INSURED HEALTH PLAN.—

15 For purposes of this section, the term ‘applicable self-in-
16 sured health plan’ means any plan for providing accident
17 or health coverage if—

18 “(1) any portion of such coverage is provided
19 other than through an insurance policy, and

20 “(2) such plan is established or maintained—

21 “(A) by one or more employers for the
22 benefit of their employees or former employees,

23 “(B) by one or more employee organiza-
24 tions for the benefit of their members or former
25 members,

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1 “(C) jointly by 1 or more employers and 1
2 or more employee organizations for the benefit
3 of employees or former employees,

4 “(D) by a voluntary employees’ beneficiary
5 association described in section 501(c)(9),

6 “(E) by any organization described in sec-
7 tion 501(c)(6), or

8 “(F) in the case of a plan not described in
9 the preceding subparagraphs, by a multiple em-
10 ployer welfare arrangement, a rural electric co-
11 operative, or a rural telephone cooperative asso-
12 ciation, as such terms are defined in section
13 3(40) of the Employee Retirement Income Se-
14 curities Act of 1974.

15 “(d) ACCIDENT OR HEALTH COVERAGE EXPENDI-
16 TURES.—For purposes of this section—

17 “(1) IN GENERAL.—The accident or health cov-
18 erage expenditures of any applicable self-insured
19 health plan for any month are the aggregate expend-
20 itures paid in such month for accident or health cov-
21 erage provided under such plan to the extent such
22 expenditures are not subject to tax under section
23 4501.

24 “(2) TREATMENT OF REIMBURSEMENTS.—In
25 determining accident or health coverage expenditures

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1 during any month of any applicable self-insured
2 health plan, reimbursements (by insurance or other-
3 wise) received during such month shall be taken into
4 account as a reduction in accident or health coverage
5 expenditures.

6 “(3) CERTAIN EXPENDITURES DISREGARDED.—

7 Paragraph (1) shall not apply to any expenditure for
8 the acquisition or improvement of land or for the ac-
9 quisition or improvement of any property to be used
10 in connection with the provision of accident or
11 health coverage which is subject to the allowance
12 under section 167, except that, for purposes of para-
13 graph (1), allowances under section 167 shall be
14 considered as expenditures.

15 “(e) DIRECT ADMINISTRATIVE EXPENDITURES.—

16 For purposes of this section, the term ‘direct administra-
17 tive expenditures’ means the administrative expenditures
18 under the plan to the extent such expenditures are not
19 subject to tax under section 4501. In determining the
20 amount of such expenditures, rules similar to the rules of
21 subsection (d)(3) shall apply.

22 “SEC. 4503. DEFINITIONS AND SPECIAL RULES.

23 “(a) DEFINITIONS.—For purposes of this
24 subchapter—

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1 “(1) ACCIDENT OR HEALTH COVERAGE.—The
2 term ‘accident or health coverage’ means any cov-
3 erage which, if provided by an insurance policy,
4 would cause such policy to be a taxable health insur-
5 ance policy (as defined in section 4501(c)).

6 “(2) INSURANCE POLICY.—The term ‘insurance
7 policy’ means any policy or other instrument where-
8 by a contract of insurance is issued, renewed, or ex-
9 tended.

10 “(3) PREMIUM.—The term ‘premium’ means
11 the gross amount of premiums and other consider-
12 ation (including advance premiums, deposits, fees,
13 and assessments) arising from policies issued by a
14 person acting as the primary insurer, adjusted for
15 any return or additional premiums paid as a result
16 of endorsements, cancellations, audits, or retrospec-
17 tive rating. Amounts returned where the amount is
18 not fixed in the contract but depends on the experi-
19 ence of the insurer or the discretion of management
20 shall not be included in return premiums.

21 “(4) UNITED STATES.—The term ‘United
22 States’ includes any possession of the United States.

23 “(b) TREATMENT OF GOVERNMENTAL ENTITIES.—

24 “(1) IN GENERAL.—For purposes of this
25 subchapter—

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1 “(A) the term ‘person’ includes any gov-
2 ernmental entity, and

3 “(B) notwithstanding any other law or rule
4 of law, governmental entities shall not be ex-
5 empt from the taxes imposed by this subchapter
6 except as provided in paragraph (2).

7 “(2) EXEMPT GOVERNMENTAL PROGRAMS.—In
8 the case of an exempt governmental program—

9 “(A) no tax shall be imposed under section
10 4501 on any premium received pursuant to
11 such program or on any amount received for
12 health-related administrative services pursuant
13 to such program, and

14 “(B) no tax shall be imposed under section
15 4502 on any expenditures pursuant to such
16 program.

17 “(3) EXEMPT GOVERNMENTAL PROGRAM.—For
18 purposes of this subchapter, the term ‘exempt gov-
19 ernmental program’ means—

20 “(A) the insurance programs established
21 by parts A and B of title XVIII of the Social
22 Security Act,

23 “(B) the medical assistance program es-
24 tablished by title XIX of the Social Security
25 Act,

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1 “(C) any program established by Federal
2 law for providing medical care to individuals (or
3 the spouses and dependents thereof) by reason
4 of such individuals being—

5 “(i) members of the Armed Forces of
6 the United States, or

7 “(ii) veterans, and

8 “(D) any program established by Federal
9 law for providing medical care (other than
10 through insurance policies) to members of In-
11 dian tribes (as defined in section 4(d) of the In-
12 dian Health Care Improvement Act).

13 “(e) NO COVER OVER TO POSSESSIONS.—Notwith-
14 standing any other provision of law, no amount collected
15 under this subchapter shall be covered over to any posses-
16 sion of the United States.”

17 (b) CLERICAL AMENDMENT.—The table of chapters
18 for subtitle D is amended by inserting after the item relat-
19 ing to chapter 36 the following new item:

 “CHAPTER 37. Health related assessments.”

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply with respect to premiums received,
22 and expenses incurred, with respect to coverage for peri-
23 ods after December 31, 1995.

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1 **PART 3—PROVISIONS RELATING TO MEDICARE**

2 **SEC. 6121. RECAPTURE OF CERTAIN HEALTH CARE SUB-**
3 **SIDIES RECEIVED BY HIGH-INCOME INDIVID-**
4 **UALS.**

5 (a) **IN GENERAL.**—Subchapter A of chapter 1 is
6 amended by adding at the end the following new part:

7 **“PART VIII—CERTAIN HEALTH CARE SUBSIDIES**
8 **RECEIVED BY HIGH-INCOME INDIVIDUALS**

“Sec. 59B. Recapture of certain health care subsidies.

9 **“SEC. 59B. RECAPTURE OF CERTAIN HEALTH CARE SUB-**
10 **SIDIES.**

11 **“(a) IMPOSITION OF RECAPTURE AMOUNT.**—In the
12 case of an individual, if the modified adjusted gross in-
13 come of the taxpayer for the taxable year exceeds the
14 threshold amount, such taxpayer shall pay (in addition to
15 any other amount imposed by this subtitle) a recapture
16 amount for such taxable year equal to the aggregate of
17 the Medicare part B recapture amounts (if any) for
18 months during such year that a premium is paid under
19 part B of title XVIII of the Social Security Act for the
20 coverage of the individual under such part.

21 **“(b) MEDICARE PART B PREMIUM RECAPTURE**
22 **AMOUNT FOR MONTH.**—For purposes of this section, the
23 Medicare part B premium recapture amount for any
24 month is the amount equal to the excess of—

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1 “(1) 150 percent of the monthly actuarial rate
2 for enrollees age 65 and over determined for that
3 calendar year under section 1839(b) of the Social
4 Security Act, over

5 “(2) the total monthly premium under section
6 1839 of the Social Security Act (determined without
7 regard to subsections (b) and (f) of section 1839 of
8 such Act).

9 “(c) PHASE-IN OF RECAPTURE AMOUNT.—

10 “(1) IN GENERAL.—If the modified adjusted
11 gross income of the taxpayer for any taxable year
12 exceeds the threshold amount by less than \$15,000,
13 the recapture amount imposed by this section for
14 such taxable year shall be an amount which bears
15 the same ratio to the recapture amount which would
16 (but for this subsection) be imposed by this section
17 for such taxable year as such excess bears to
18 \$15,000.

19 “(2) JOINT RETURNS.—If a recapture amount
20 is determined separately for each spouse filing a
21 joint return, paragraph (1) shall be applied by sub-
22 stituting ‘\$30,000’ for ‘\$15,000’ each place it ap-
23 pears.

24 “(d) OTHER DEFINITIONS AND SPECIAL RULES.—

25 For purposes of this section—

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1 “(1) THRESHOLD AMOUNT.—The term ‘thresh-
2 old amount’ means—

3 “(A) except as otherwise provided in this
4 paragraph, \$75,000,

5 “(B) \$100,000 in the case of a joint re-
6 turn, and

7 “(C) zero in the case of a taxpayer who—

8 “(i) is married (as determined under
9 section 7703) but does not file a joint re-
10 turn for such year, and

11 “(ii) does not live apart from his
12 spouse at all times during the taxable year.

13 “(2) MODIFIED ADJUSTED GROSS INCOME.—

14 The term ‘modified adjusted gross income’ means
15 adjusted gross income—

16 “(A) determined without regard to sections
17 135, 911, 931, and 933, and

18 “(B) increased by the amount of interest
19 received or accrued by the taxpayer during the
20 taxable year which is exempt from tax.

21 “(3) JOINT RETURNS.—In the case of a joint
22 return—

23 “(A) the recapture amount under sub-
24 section (a) shall be the sum of the recapture

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1 amounts determined separately for each spouse,
2 and

3 “(B) subsections (a) and (c) shall be ap-
4 plied by taking into account the combined modi-
5 fied adjusted gross income of the spouses.

6 “(4) COORDINATION WITH OTHER PROVI-
7 SIONS.—

8 “(A) TREATED AS TAX FOR SUBTITLE F.—
9 For purposes of subtitle F, the recapture
10 amount imposed by this section shall be treated
11 as if it were a tax imposed by section 1.

12 “(B) NOT TREATED AS TAX FOR CERTAIN
13 PURPOSES.—The recapture amount imposed by
14 this section shall not be treated as a tax im-
15 posed by this chapter for purposes of
16 determining—

17 “(i) the amount of any credit allow-
18 able under this chapter, or

19 “(ii) the amount of the minimum tax
20 under section 55.

21 “(C) TREATED AS PAYMENT FOR MEDICAL
22 INSURANCE.—The recapture amount imposed
23 by this section shall be treated as an amount
24 paid for insurance covering medical care, within
25 the meaning of section 213(d).”

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1 (b) TRANSFERS TO FEDERAL SUPPLEMENTARY
2 MEDICAL INSURANCE TRUST FUND.—

3 (1) IN GENERAL.—There are hereby appro-
4 priated to the Federal Supplementary Medical Insur-
5 ance Trust Fund amounts equivalent to the aggre-
6 gate increase in liabilities under chapter 1 of the In-
7 ternal Revenue Code of 1986 which is attributable
8 to the application of section 59B(a) of such Code, as
9 added by this section.

10 (2) TRANSFERS.—The amounts appropriated
11 by paragraph (1) to the Federal Supplementary
12 Medical Insurance Trust Fund shall be transferred
13 from time to time (but not less frequently than
14 quarterly) from the general fund of the Treasury on
15 the basis of estimates made by the Secretary of the
16 Treasury of the amounts referred to in paragraph
17 (1). Any quarterly payment shall be made on the
18 first day of such quarter and shall take into account
19 the recapture amounts referred to in such section
20 59B(a) for such quarter. Proper adjustments shall
21 be made in the amounts subsequently transferred to
22 the extent prior estimates were in excess of or less
23 than the amounts required to be transferred.

24 (c) REPORTING REQUIREMENTS.—

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1 (1) Paragraph (1) of section 6050F(a) (relating
2 to returns relating to social security benefits) is
3 amended by striking "and" at the end of subpara-
4 graph (B) and by inserting after subparagraph (C)
5 the following new subparagraph:

6 " (D) the number of months during the cal-
7 endar year for which a premium was paid under
8 part B of title XVIII of the Social Security Act
9 for the coverage of such individual under such
10 part, and".

11 (2) Paragraph (2) of section 6050F(b) is
12 amended to read as follows:

13 "(2) the information required to be shown on
14 such return with respect to such individual."

15 (3) Subparagraph (A) of section 6050F(c)(1) is
16 amended by inserting before the comma "and in the
17 case of the information specified in subsection
18 (a)(1)(D)".

19 (4) The heading for section 6050F is amended
20 by inserting "**AND MEDICARE PART B COV-**
21 **ERAGE**" before the period.

22 (5) The item relating to section 6050F in the
23 table of sections for subpart B of part III of sub-
24 chapter A of chapter 61 is amended by inserting
25 "and Medicare part B coverage" before the period.

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1 (d) WAIVER OF CERTAIN ESTIMATED TAX PEN-
2 ALTIES.—No addition to tax shall be imposed under sec-
3 tion 6654 of the Internal Revenue Code of 1986 (relating
4 to failure to pay estimated income tax) for any period be-
5 fore April 16, 1997, with respect to any underpayment
6 to the extent that such underpayment resulted from sec-
7 tion 59B(a) of the Internal Revenue Code of 1986, as
8 added by this section.

9 (e) CLERICAL AMENDMENT.—The table of parts for
10 subchapter A of chapter 1 is amended by adding at the
11 end thereof the following new item:

“Part VIII. Certain health care subsidies received by high-income
individuals.”

12 (f) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 1995.

15 PART 4—OTHER PROVISIONS

16 SEC. 6131. EXTENDING MEDICARE COVERAGE OF, AND AP- 17 PPLICATION OF HOSPITAL INSURANCE TAX 18 TO, ALL STATE AND LOCAL GOVERNMENT 19 EMPLOYEES.

20 (a) IN GENERAL.—

21 (1) APPLICATION OF HOSPITAL INSURANCE
22 TAX.—Section 3121(u)(2) is amended by striking
23 subparagraphs (C) and (D).

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1 (2) COVERAGE UNDER MEDICARE.—Section
2 210(p) of the Social Security Act (42 U.S.C. 410(p))
3 is amended by striking paragraphs (3) and (4).

4 (3) EFFECTIVE DATE.—The amendments made
5 by this subsection shall apply to services performed
6 after September 30, 1995.

7 (b) TRANSITION IN BENEFITS FOR STATE AND
8 LOCAL GOVERNMENT EMPLOYEES AND FORMER EM-
9 PLOYEES.—

10 (1) IN GENERAL.—

11 (A) EMPLOYEES NEWLY SUBJECT TO
12 TAX.—For purposes of sections 226, 226A, and
13 1811 of the Social Security Act, in the case of
14 any individual who performs services during the
15 calendar quarter beginning October 1, 1995,
16 the wages for which are subject to the tax im-
17 posed by section 3101(b) of the Internal Reve-
18 nue Code of 1986 only because of the amend-
19 ment made by subsection (a), the individual's
20 medicare qualified State or local government
21 employment (as defined in subparagraph (B))
22 performed before October 1, 1995, shall be con-
23 sidered to be "employment" (as defined for pur-
24 poses of title II of such Act), but only for pur-
25 poses of providing the individual (or another

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1 person) with entitlement to hospital insurance
2 benefits under part A of title XVIII of such Act
3 for months beginning with October 1995.

4 (B) MEDICARE QUALIFIED STATE OR
5 LOCAL GOVERNMENT EMPLOYMENT DE-
6 FINED.—In this paragraph, the term “medicare
7 qualified State or local government employ-
8 ment” means medicare qualified government
9 employment described in section 210(p)(1)(B)
10 of the Social Security Act (determined without
11 regard to section 210(p)(3) of such Act, as in
12 effect before its repeal under subsection (a)(2)).

13 (2) AUTHORIZATION OF APPROPRIATIONS.—
14 There are authorized to be appropriated to the Fed-
15 eral Hospital Insurance Trust Fund from time to
16 time such sums as the Secretary of Health and
17 Human Services deems necessary for any fiscal year
18 on account of—

19 (A) payments made or to be made during
20 such fiscal year from such Trust Fund with re-
21 spect to individuals who are entitled to benefits
22 under title XVIII of the Social Security Act
23 solely by reason of paragraph (1),

24 (B) the additional administrative expenses
25 resulting or expected to result therefrom, and

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1 (C) any loss in interest to such Trust
2 Fund resulting from the payment of those
3 amounts, in order to place such Trust Fund in
4 the same position at the end of such fiscal year
5 as it would have been in if this subsection had
6 not been enacted.

7 (3) INFORMATION TO INDIVIDUALS WHO ARE
8 PROSPECTIVE MEDICARE BENEFICIARIES BASED ON
9 STATE AND LOCAL GOVERNMENT EMPLOYMENT.—
10 Section 226(g) of the Social Security Act (42 U.S.C.
11 426(g)) is amended—

12 (A) by redesignating paragraphs (1)
13 through (3) as subparagraphs (A) through (C),
14 respectively,

15 (B) by inserting "(1)" after "(g)", and

16 (C) by adding at the end the following new
17 paragraph:

18 "(2) The Secretary, in consultation with State
19 and local governments, shall provide procedures de-
20 signed to assure that individuals who perform medi-
21 care qualified government employment by virtue of
22 service described in section 210(a)(7) are fully in-
23 formed with respect to (A) their eligibility or poten-
24 tial eligibility for hospital insurance benefits (based
25 on such employment) under part A of title XVIII,

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1 (B) the requirements for, and conditions of, such eli-
2 gibility, and (C) the necessity of timely application
3 as a condition of becoming entitled under subsection
4 (b)(2)(C), giving particular attention to individuals
5 who apply for an annuity or retirement benefit and
6 whose eligibility for such annuity or retirement bene-
7 fit is based on a disability.”

8 (c) TECHNICAL AMENDMENTS.—

9 (1) Subparagraph (A) of section 3121(u)(2) is
10 amended by striking “subparagraphs (B) and (C),”
11 and inserting “subparagraph (B).”

12 (2) Subparagraph (B) of section 210(p)(1) of
13 the Social Security Act (42 U.S.C. 410(p)(1)) is
14 amended by striking “paragraphs (2) and (3).” and
15 inserting “paragraph (2).”

16 (3) Section 218 of the Social Security Act (42
17 U.S.C. 418) is amended by striking subsection (n).

18 (4) The amendments made by this subsection
19 shall apply after September 30, 1995.

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1 **Subtitle B—Tax Treatment of**
2 **Employer-Provided Health Care**

3 **PART 1—EXCLUSION FROM EMPLOYEES' INCOME**

4 **SEC. 6201. LIMITATION ON EXCLUSION FOR EMPLOYER-**
5 **PROVIDED HEALTH BENEFITS.**

6 (a) **GENERAL RULE.**—Section 106 (relating to con-
7 tributions by employer to accident and health plans) is
8 amended to read as follows:

9 **“SEC. 106. CONTRIBUTIONS BY EMPLOYER TO ACCIDENT**
10 **AND HEALTH PLANS.**

11 “(a) **GENERAL RULE.**—Except as otherwise provided
12 in this section, gross income of an employee does not in-
13 clude employer-provided coverage under an accident or
14 health plan.

15 “(b) **EXCEPTION FOR COVERAGE THROUGH FLEXI-**
16 **BLE SPENDING ARRANGEMENTS.—**

17 “(1) **IN GENERAL.**—Subsection (a) shall not
18 apply to coverage provided through a flexible spend-
19 ing or similar arrangement.

20 “(2) **FLEXIBLE SPENDING ARRANGEMENT.—**

21 For purposes of this subsection, a flexible spending
22 arrangement is a benefit program which provides
23 employees with coverage under which—

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1 “(A) specified incurred expenses may be
2 reimbursed (subject to reimbursement maxi-
3 mums and other reasonable conditions), and

4 “(B) the maximum amount of reimburse-
5 ment which is reasonably available to a partici-
6 pant for such coverage is less than 500 percent
7 of the cost of such coverage.

8 In the case of an insured plan, the maximum
9 amount reasonably available shall be determined on
10 the basis of the underlying coverage.

11 “(c) SPECIAL RULES FOR COST-SHARING ARRANGE-
12 MENTS.—Subsection (a) shall not apply to coverage on
13 and after January 1, 2000, which consists of the payment
14 of deductibles and copayments under an accident or health
15 plan. The preceding sentence shall apply to coverage under
16 a medicare supplemental policy (as defined in section
17 1882(g)(1) of the Social Security Act).”

18 (b) EMPLOYMENT TAX TREATMENT.—

19 (1) SOCIAL SECURITY TAX.—

20 (A) Subsection (a) of section 3121 is
21 amended by inserting after paragraph (21) the
22 following new sentence:

23 “Nothing in paragraph (2) shall exclude from the term
24 ‘wages’ any amount which is required to be included in
25 gross income under section 106(b) or (c).”

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1 (B) Subsection (a) of section 209 of the
2 Social Security Act is amended by inserting
3 after paragraph (21) the following new sen-
4 tence:

5 "Nothing in paragraph (2) shall exclude from the term
6 'wages' any amount which is required to be included in
7 gross income under section 106(b) or (c) of the Internal
8 Revenue Code of 1986."

9 (2) RAILROAD RETIREMENT TAX.—Paragraph
10 (1) of section 3231(e) is amended by adding at the
11 end the following new sentence: "Nothing in clause
12 (i) of the second sentence of this paragraph shall ex-
13 clude from the term 'compensation' any amount
14 which is required to be included in gross income
15 under section 106(b) or (c)."

16 (3) UNEMPLOYMENT TAX.—Subsection (b) of
17 section 3306 is amended by inserting after para-
18 graph (16) the following new sentence:

19 "Nothing in paragraph (2) shall exclude from the term
20 'wages' any amount which is required to be included in
21 gross income under section 106(b) or (c)."

22 (4) WAGE WITHHOLDING.—Subsection (a) of
23 section 3401 is amended by adding at the end the
24 following new sentence:

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1 "Nothing in the preceding provisions of this subsection
2 shall exclude from the term 'wages' any amount which is
3 required to be included in gross income under section
4 106(b) or (c)."

5 (c) EFFECTIVE DATES.—

6 (1) IN GENERAL.—The amendments made by
7 this section shall take effect on January 1, 1997.

8 (2) BENEFITS PROVIDED PURSUANT TO COL-
9 LECTIVE BARGAINING AGREEMENTS.—In the case of
10 a flexible spending arrangement maintained pursu-
11 ant to 1 or more collective bargaining agreements
12 between employee representatives and 1 or more em-
13 ployers which was ratified before June 30, 1994, the
14 amendments referred to in paragraph (1) shall not
15 apply to benefits pursuant to any such agreement
16 before the later of—

17 (A) January 1, 1997, or

18 (B) the earlier of—

19 (i) the date on which the last of such
20 agreements terminate (determined without
21 regard to any extension thereof on or after
22 June 30, 1994), or

23 (ii) January 1, 1999.

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1 **PART 2—LIMITATIONS ON DEDUCTIBILITY OF**
2 **EMPLOYER-PROVIDED HEALTH BENEFITS**
3 **SEC. 6211. LIMITATIONS ON DEDUCTIBILITY OF EMPLOYER-**
4 **PROVIDED HEALTH BENEFITS.**

5 (a) IN GENERAL.—Subchapter B of chapter 1 (relat-
6 ing to computation of taxable income) is amended by add-
7 ing at the end the following new part:

8 **“PART XII—LIMITATIONS ON DEDUCTIBILITY OF**
9 **EMPLOYER-PROVIDED HEALTH BENEFITS**

“Sec. 293. Nondeductible employer health contributions.

“Sec. 294. Excess employer contributions.

“Sec. 295. Discriminatory coverage. — *RESERVED*

“Sec. 296. Definitions and special rules.

10 **“SEC. 293. NONDEDUCTIBLE EMPLOYER HEALTH CON-**
11 **TRIBUTIONS.**

12 “(a) NONDEDUCTIBILITY.—No deduction shall be al-
13 lowed under this chapter for any nondeductible employer
14 health contribution of an employer for any taxable year.

15 “(b) NONDEDUCTIBLE EMPLOYER HEALTH CON-
16 TRIBUTION.—For purposes of this section, the term ‘non-
17 deductible employer health contribution’ means any em-
18 ployer contribution for coverage of an employee under a
19 health plan which is—

20 “(1) an employer contribution for coverage
21 other than permitted coverage, or

22 “(2) an excess employer contribution.

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1 “(c) PERMITTED COVERAGE.—For purposes of sub-
2 section (b)(1)—

3 “(1) IN GENERAL.—Except as otherwise pro-
4 vided in this subsection, the term ‘permitted cov-
5 erage’ means coverage of an employee under a cer-
6 tified health plan.

7 “(2) COVERAGE IN ADDITION TO STANDARD
8 BENEFITS COVERAGE.—

9 “(A) IN GENERAL.—In the case of an em-
10 ployee who is covered under a certified health
11 plan providing the standard benefits package,
12 the term ‘permitted coverage’ shall include any
13 other coverage of such employee under a health
14 plan.

15 “(B) EXCEPTION FOR COST-SHARING COV-
16 ERAGE.—On and after January 1, 2000, the
17 term ‘permitted coverage’ shall not include any
18 coverage which consists of the payment of
19 deductibles and copayments under a health
20 plan.

21 “(d) SPECIAL RULE FOR MEDICARE SUPPLEMENTAL
22 POLICIES.—For purposes of this section, the term ‘non-
23 deductible employer health contribution’ includes any em-
24 ployer contribution for coverage of an employee under a

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1 medicare supplemental policy (as defined in section
2 1882(g)(1) of the Social Security Act).

3 **"SEC. 294. EXCESS EMPLOYER CONTRIBUTIONS.**

4 “(a) EXCESS EMPLOYER CONTRIBUTION.—For pur-
5 poses of section 293(b)(2)—

6 “(1) IN GENERAL.—The term ‘excess employer
7 contribution’ means, with respect to an employee for
8 any month in the taxable year, the excess (if any)
9 of—

10 “(A) the employer contribution for such
11 month for coverage of the employee under a
12 certified health plan, over

13 “(B) one-twelfth of the applicable percent-
14 age of the reference premium for such month
15 (for the community rating area in which the
16 employee enrolls) applicable to the same class of
17 enrollment as the employee.

18 “(2) APPLICABLE PERCENTAGE.—For purposes
19 of paragraph (1), the term ‘applicable percentage’
20 means the percentage which the employer’s portion
21 of the premium for coverage of an employee under
22 a certified health plan is of the total premium for
23 such coverage.

24 “(b) REFERENCE PREMIUMS.—For purposes of this
25 section—

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1 “(1) ESTABLISHMENT BY SECRETARY.—As
2 soon as practicable before any annual open enroll-
3 ment period for a community rating area, the Sec-
4 retary shall, in consultation with the Secretary of
5 Health and Human Services and the Secretary of
6 Labor, establish separate reference premiums for
7 each class of enrollment for community-rated health
8 plans in such area. Each such reference premium
9 shall apply for any month in the 12-month coverage
10 period following the annual open enrollment period.

11 “(2) DETERMINATION OF AMOUNT OF REF-
12 ERENCE PREMIUMS FOR COMMUNITY-RATED
13 PLANS.—

14 “(A) IN GENERAL.—The reference pre-
15 mium established under paragraph (1) for any
16 class of enrollment under a community-rated
17 health plan shall be equal to the greater of—

18 “(i) 110 percent of the average an-
19 nual premium for such class of enrollment
20 for all certified health plans in the commu-
21 nity rating area, weighted to reflect the
22 total enrollment of community-rated indi-
23 viduals among such plans, or

24 “(ii) the adjusted national low-cost
25 premium.

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1 “(B) ADJUSTED NATIONAL LOW-COST PRE-
2 MIUM.—For purposes of subparagraph (A)—

3 “(i) IN GENERAL.—The term ‘ad-
4 justed national low-cost premium’ means,
5 with respect to any class of enrollment for
6 any community rating area, the highest
7 annual premium for certified health plans
8 which are in the bottom quartile (on the
9 basis of premiums) of all community-rated
10 certified health plans in the United States,
11 adjusted as provided in clause (ii).

12 “(ii) ADJUSTMENTS.—The premium
13 determined under clause (i) shall, pursuant
14 to such method as the Secretary (in con-
15 sultation with the Secretary of Health and
16 Human Services and the Secretary of
17 Labor) may prescribe, be adjusted for each
18 community rating area to reflect—

19 “(I) differences in cost-of-living
20 among community-rated areas, and

21 “(II) such other factors (other
22 than factors relating to practice pat-
23 terns and delivery system design) as
24 may be included in such method.

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1 “(iii) TIMING.—Except as provided by
2 the Secretary, the determination under
3 clause (i) for any annual open enrollment
4 period shall be made on the basis of pre-
5 miums for the preceding calendar year.

6 “(C) BASIS FOR DETERMINATION.—The
7 determination under subparagraph (A)(i) shall
8 be made on the basis of—

9 “(i) the premiums submitted to the
10 Secretary under paragraph (4), and

11 “(ii) enrollment in the certified health
12 plans in the community rating area during
13 the annual open enrollment period preced-
14 ing the enrollment period for which the de-
15 termination is being made.

16 “(3) DETERMINATION OF AMOUNT OF REF-
17 ERENCE PREMIUM FOR EXPERIENCE-RATED
18 PLANS.—

19 “(A) IN GENERAL.—The reference pre-
20 mium established under paragraph (1) for any
21 class of enrollment under an experience-rated
22 health plan in a community rating area shall, at
23 the annual election of the employer, be equal
24 to—

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1 “(i) the reference premium established
2 under paragraph (2) for such class of en-
3 rollment for community-rated plans, or

4 “(ii) the average premium under such
5 experience-rated plan for such class of en-
6 rollment during 1996.

7 “(B) SPECIAL RULE FOR SELF-INSURED
8 PLANS.—In the case of a self-insured plan oper-
9 ating in more than 1 community rating area,
10 the reference premium shall be the average of
11 the reference premiums determined under
12 clause (i) or (ii) of subparagraph (A), whichever
13 is applicable, for all community rating areas in
14 which it enrolls individuals, weighted to reflect
15 the number of primary insureds enrolled in the
16 plan in each such area.

17 “(4) COMMUNITY-RATED PREMIUMS SUBMIT-
18 TED TO SECRETARY.—Not later than 90 days before
19 the first day of an annual open enrollment period
20 applicable to any community-rated certified health
21 plan (or such later date as the Secretary may pre-
22 scribe), the plan shall submit to the Secretary the
23 annual premiums it will charge for each class of en-
24 rollment during the coverage period to which the en-
25 rollment period applies.

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1 “(5) SEPARATE PREMIUMS.—The Secretary
2 shall establish separate reference premiums under
3 this subsection (including the adjusted national low-
4 cost premium) for community-rated certified health
5 plans providing the standard benefits package, the
6 basic benefits package, or the catastrophic benefits
7 package.

8 “(c) SPECIAL RULES.—For purposes of this
9 section—

10 “(1) MULTIEMPLOYER HEALTH PLANS.—In the
11 case of employer contributions with respect to any
12 employee made to a multiemployer health plan on a
13 basis other than per employee per month, the Sec-
14 retary may by regulations prescribe the method of
15 determining that portion of such contributions which
16 is to be treated as an excess employer contribution.

17 “(2) COVERAGE FOR ONLY PART OF MONTH.—
18 If an employee is covered under a certified health
19 plan for only a portion of a month, the amount of
20 the deduction disallowed under subsection (a) with
21 respect to such month shall be an amount which
22 bears the same ratio to the excess employer con-
23 tribution for such month as such portion bears to
24 the entire month.

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1 “(3) AGGREGATION RULES.—For purposes of
2 this subsection—

3 “(A) IN GENERAL.—All employers treated
4 as a single employer under subsection (b) or (c)
5 of section 414 shall be treated as a single em-
6 ployer.

7 “(B) AFFILIATED SERVICE GROUPS.—All
8 employees of members of an affiliated service
9 group (as defined in section 414(m)) shall be
10 treated as employed by a single employer.

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

12 “(1) IN GENERAL.—Any term used in this sec-
13 tion which is also used in the Health Reform Act
14 shall have the same meaning given such term by the
15 Health Reform Act.

16 “(2) PREMIUMS.—

17 “(A) IN GENERAL.—The term ‘premium’
18 has the meaning given such term by section
19 4503(a)(3).

20 “(B) ADMINISTRATIVE COSTS.—Amounts
21 received for health-related administrative serv-
22 ices (as defined in section 4501(d)) provided in
23 connection with any certified standard health
24 plan shall be treated as premiums.

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1 “(C) SELF-INSURED PLANS.—In the case
2 of a self-insured plan, premiums shall include—

3 “(i) the expenditures described in sub-
4 sections (d) and (e) of section 4502 with
5 respect to coverage under the plan, and

6 “(ii) in the case of any coverage pro-
7 vided through an insurance policy, pre-
8 miums paid for such coverage.

9 “(3) INSURANCE POLICY.—The term ‘insurance
10 policy’ means any policy or other instrument where-
11 by a contract of insurance is issued, renewed, or ex-
12 tended.

13 “(4) MULTIEMPLOYER HEALTH PLAN.—The
14 term ‘multiemployer health plan’ means a qualified
15 health plan which is part of an employee welfare
16 benefit plan (within the meaning of section 3(1) of
17 the Employee Retirement Income Security Act of
18 1974)—

19 “(A) to which more than 1 employer is re-
20 quired to contribute, and

21 “(B) which is maintained pursuant to 1 or
22 more collective bargaining agreements between
23 1 or more employee organizations and more
24 than 1 employer.

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1 "SEC. 295. DEFINITIONS AND SPECIAL RULES.

2 "(a) EMPLOYER.—For purposes of this part—

3 "(1) IN GENERAL.—The term 'employer' means
4 any person for whom an individual performs serv-
5 ices, of whatever nature, as an employee (as defined
6 in section 3401(c)).

7 "(2) SPECIAL RULES.—

8 "(A) A partnership shall be treated as the
9 employer of each partner who is an employee
10 within the meaning of section 401(c)(1).

11 "(B) An S corporation shall be treated as
12 the employer of each shareholder who is an em-
13 ployee within the meaning of section 401(c)(1).

14 "(b) FORMER EMPLOYEE.—The term 'employee' in-
15 cludes a former employee.

16 "(c) EMPLOYER CONTRIBUTIONS.—For purposes of
17 this part—

18 "(1) IN GENERAL.—The term 'employer con-
19 tribution' means, with respect to coverage under a
20 health plan, the portion of the cost of the coverage
21 which is to be provided by the employer.

22 "(2) EMPLOYEES ONLY TAKEN INTO ACCOUNT
23 FOR PERIODS COVERED.—For purposes of determin-
24 ing the employer contribution, amounts shall be
25 taken into account with respect to an employee only

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1 for periods during which such employee is covered by
2 the plan.

3 “(d) REGULATIONS.—The Secretary shall prescribe
4 such regulations as are necessary to carry out the provi-
5 sions of this part, including regulations providing for the
6 determination of the amount of any employer contribution
7 and the prevention of the avoidance of any tax imposed
8 by this part through the use of any arrangement described
9 in section 414(o).”

10 (b) CONFORMING AMENDMENT.—The table of parts
11 for subchapter B of chapter 1 is amended by adding at
12 the end the following new item:

“PART XII—LIMITATIONS ON DEDUCTIBILITY OF EMPLOYER-PROVIDED
HEALTH BENEFITS.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall take effect on January 1, 1997.

15 **SEC. 6212. APPLICATION TO TAX-EXEMPT ORGANIZATIONS**
16 **AND GOVERNMENTS.**

17 (a) IN GENERAL.—Chapter 37, as added by section
18 7111, is amended by adding at the end the following new
19 subchapter:

20 **“Subchapter B—Health Contributions of Tax-**
21 **Exempt Organizations and Governments**

“Sec. 4521. Health contributions of exempt organizations and
governments.

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1 "SEC. 4521. HEALTH CONTRIBUTIONS OF EXEMPT ORGANI-
2 ZATIONS AND GOVERNMENTS.

3 "(a) IMPOSITION OF TAX.—There is hereby imposed
4 a tax equal to the product of—

5 "(1) the taxable health contributions of an ap-
6 plicable entity for any taxable year, and

7 "(2) the highest rate of tax imposed under sec-
8 tion 11(b) for such taxable year.

9 "(b) TAXABLE HEALTH CONTRIBUTION.—For pur-
10 poses of this section, the term 'taxable health contribution'
11 means any contribution by an applicable entity for cov-
12 erage of an employee under a health plan which is—

13 "(1) a contribution for coverage other than per-
14 mitted coverage (as defined in section 293(e)),

15 "(2) an excess employer contribution (as de-
16 fined in section 294(a)), or

17 "(3) a contribution for coverage of an employee
18 under a medicare supplemental policy (as defined in
19 section 1882(g)(1) of the Social Security Act).

20 "(c) APPLICABLE ENTITY.—For purposes of this sec-
21 tion, notwithstanding any other provision of law or rule
22 of law, the term 'applicable entity' means, with respect
23 to any employee, an entity which—

24 "(1) is the employer (as defined in section
25 296(a)) of such employee, and

26 "(2) is—

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1 “(A) the United States, any State or politi-
2 cal subdivision thereof, and any agency or in-
3 strumentality of any of the foregoing, or

4 “(B) any other entity otherwise exempt
5 from tax under chapter 1.

6 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
7 poses of this section—

8 “(1) CONTRIBUTIONS.—The contributions of an
9 applicable entity shall be determined in the same
10 manner as employer contributions under section
11 296(c).

12 “(2) TAXABLE YEAR.—The term ‘taxable year’
13 means the calendar year or such other period speci-
14 fied by the Secretary.

15 “(3) OTHER TERMS.—Any term used in this
16 section which is also used in part XII of subchapter
17 B of chapter 1 shall have the same meaning as when
18 used in such part.

19 “(e) REGULATIONS.—The Secretary shall prescribe
20 such regulations as may be necessary to carry out the pro-
21 visions of this section, including regulations for aggregat-
22 ing related tax-exempt and governmental entities.”

23 (b) CONFORMING AMENDMENT.—The table of sub-
24 chapters for chapter 37 is amended by adding at the end
25 the following new item:

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"SUBCHAPTER B—HEALTH CONTRIBUTIONS OF TAX-EXEMPT ORGANIZATIONS
AND GOVERNMENTS."

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect on January 1, 1997.

3 **SEC. 6213. DENIAL OF DEDUCTION FOR CERTAIN CONTIN-**
4 **GENT EMPLOYER HEALTH CONTRIBUTIONS.**

5 (a) DENIAL OF DEDUCTION.—

6 (1) IN GENERAL.—Subsection (b) of section
7 293, as added by section 6211, is amended by strik-
8 ing "or" at the end of paragraph (1), by striking the
9 period at the end of paragraph (2) and inserting "
10 or", and by adding at the end the following new
11 paragraph:

12 "(3) an employer contribution described in sec-
13 tion 295."

14 (2) NONDEDUCTIBLE CONTRIBUTION.—Part
15 XII of subchapter B of chapter 1, as added by sec-
16 tion 6211, is amended by redesignating section 295
17 as section 296 and by inserting after section 294 the
18 following new section:

19 **"SEC. 295. CONTRIBUTIONS CONTINGENT ON HEALTH**
20 **PLANS SELECTED BY EMPLOYEES.**

21 "(a) IN GENERAL.—An employer contribution is de-
22 scribed in this section if the amount of such contribution
23 is contingent on the certified health plan selected by the
24 employee.

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1 “(b) VARIATIONS ON CLASS OF ENROLLMENT.—Sub-
2 section (a) shall not apply to any employer contribution
3 which varies by reason of the class of enrollment selected
4 by any employee.”

5 (b) APPLICATION TO EXEMPT ORGANIZATIONS AND
6 GOVERNMENTS.—Section 4521(b), as added by section
7 6212, is amended by striking “or” at the end of paragraph
8 (2), by redesignating paragraph (3) as paragraph (4), and
9 by adding after paragraph (2) the following new para-
10 graph:

11 “(3) a contribution described in section 295 (re-
12 lating to contributions contingent on health plans se-
13 lected by employees), or”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall take effect on January 1, 1997.

16 **PART 3—OTHER PROVISIONS**

17 **SEC. 6221. LIMITATION ON PREPAYMENT OF MEDICAL IN-**
18 **SURANCE PREMIUMS.**

19 (a) GENERAL RULE.—Subsection (d) of section 213
20 is amended by adding at the end the following new para-
21 graph:

22 “(10) LIMITATION ON PREPAYMENTS.—If—
23 “(A) the taxpayer pays a premium or other
24 amount which constitutes medical care under
25 paragraph (1), and

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1 “(B) such premium or other amount is
2 properly allocable to insurance coverage or care
3 to be provided during periods more than 12
4 months after the month in which such payment
5 is made,
6 such premium or other amount shall be treated as
7 paid ratably over the period during which such in-
8 surance coverage or care is to be provided. The pre-
9 ceding sentence shall not apply to any premium to
10 which paragraph (7) applies.”
11 (b) EFFECTIVE DATE.—The amendment made by
12 subsection (a) shall apply to amounts paid after December
13 31, 1994.

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1 **Subtitle C—Exempt Health Care**
2 **Organizations**

3 **SEC. 6301. TREATMENT OF HEALTH INSURANCE PURCHAS-**
4 **ING COOPERATIVES.**

5 (a) **PURCHASING COOPERATIVES EXEMPT FROM**
6 **TAX.—**

7 (1) **IN GENERAL.**—Subsection (c) of section
8 501 (relating to exemption from tax on corporations,
9 certain trusts, etc.) is amended by adding at the end
10 the following new paragraph:

11 “(26)(A) Any health insurance purchasing co-
12 operative described in section _____ of the
13 Health Reform Act.

14 “(B) Such a cooperative shall not be exempt
15 from tax pursuant to any provision other than this
16 paragraph.

17 “(C) Such a cooperative shall not be exempt
18 from tax unless—

19 “(i) no part of the net earnings of such co-
20 operative inures to the benefit of any private
21 shareholder or individual,

22 “(ii) no substantial part of the activities of
23 such cooperative is carrying on propaganda, or
24 otherwise attempting, to influence legislation

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1 (except as otherwise provided in subsection (h)),
2 and

3 “(iii) such cooperative does not participate
4 in, or intervene in (including the publishing or
5 distributing of statements), any political cam-
6 paign on behalf of (or in opposition to) any can-
7 didate for public office.”

8 (2) CERTAIN PROVISIONS APPLICABLE TO OR-
9 GANIZATIONS DESCRIBED IN SECTION 501(C)(3) MADE
10 APPLICABLE TO PURCHASING COOPERATIVES.—Sec-
11 tion 501 is amended by redesignating subsection (o)
12 as subsection (p) and by inserting after subsection
13 (n) the following new subsection:

14 “(o) CERTAIN PROVISIONS MADE APPLICABLE TO
15 HEALTH INSURANCE PURCHASING COOPERATIVES.—A
16 health insurance purchasing cooperative described in sub-
17 section (c)(26) shall be treated—

18 “(1) as described in subsection (c)(3) for pur-
19 poses of applying subsection (h) (relating to expendi-
20 tures by public charities to influence legislation),
21 section 4955 (relating to taxes on political expendi-
22 tures of section 501(c)(3) organizations), and sec-
23 tion 4958 (relating to private inurement), and

24 “(2) as described in subsection (h)(4).”

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1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect on the date of the enactment
3 of this Act.

4 **SEC. 6302. TAX EXEMPTION FOR HIGH-RISK INSURANCE**
5 **POOLS.**

6 Subsection (c) of section 501 (relating to list of ex-
7 empt organizations) is amended by adding at the end the
8 following new paragraph:

9 “(27)(A) In the case of taxable years beginning after
10 December 31, 1989, and before January 1, 1997, a quali-
11 fied high risk health insurance pool.

12 “(B) For purposes of subparagraph (A), the term
13 ‘qualified high risk health insurance pool’ means an
14 entity—

15 “(i) which was established by a State or politi-
16 cal subdivision thereof to provide health insurance
17 on a nonprofit basis to persons unable to obtain
18 health insurance because of health conditions,

19 “(ii) with respect to which the State or political
20 subdivision—

21 “(I) participates in the ongoing governance
22 of the entity, and

23 “(II) subsidizes directly or indirectly the
24 operation of the entity, and

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1 “(iii) no part of the net earnings of which inure
2 to the benefit of any private shareholder, member, or
3 individual.”

4 **SEC. 6303. SPECIAL RULE FOR DEFERRED COMPENSATION**
5 **PLANS OFFERED BY CERTAIN SECTION**
6 **501(c)(3) ORGANIZATIONS.**

7 (a) IN GENERAL.—Section 457(e) is amended by
8 adding at the end the following new paragraph:

9 “(14) TREATMENT OF EXCESS BENEFIT AR-
10 RANGEMENTS OF CERTAIN SECTION 501(C)(3) ORGA-
11 NIZATIONS.—

12 “(A) IN GENERAL.—In the case of an indi-
13 vidual who is a member of a group medical
14 practice which is exempt from taxation under
15 section 501(a) and which is described in section
16 501(c)(3), and who is a participant in an eligi-
17 ble deferred compensation plan maintained by
18 such practice which is an excess benefit plan—

19 “(i) subsections (b)(2) and (c)(1) shall
20 be applied by substituting ‘\$25,000’ for
21 ‘\$7,500’,

22 “(ii) subsection (b)(3)(A) shall be ap-
23 plied by substituting ‘\$25,000’ for
24 ‘\$15,000’, and

25 “(iii) subsection (c)(2) shall not apply.

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1 not constitute unrelated trades or busi-
2 nesses as determined by applying section
3 513(a).

4 “(B) GOVERNMENTAL UNIT NOT TO IN-
5 CLUDE FEDERAL GOVERNMENT.—The term
6 ‘governmental unit’ does not include the United
7 States or any agency or instrumentality thereof.

8 “(C) 501(c)(3) ORGANIZATION.—The term
9 ‘501(c)(3) organization’ means any organization
10 described in section 501(c)(3) and exempt from
11 tax under section 501(a).”

12 (b) REPEAL OF QUALIFIED 501(c)(3) BOND DES-
13 IGNATION.—Section 145 (relating to qualified 501(c)(3)
14 bonds) is repealed.

15 (c) CONFORMING AMENDMENTS.—

16 (1) Paragraph (3) of section 141(b) is
17 amended—

18 (A) by striking “government use” in sub-
19 paragraph (A)(ii)(I) and subparagraph (B)(ii)
20 and inserting “exempt person use”,

21 (B) by striking “a government use” in sub-
22 paragraph (B) and inserting “an exempt person
23 use”,

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1 (C) by striking "related business use" in
2 subparagraph (A)(ii)(II) and subparagraph (B)
3 and inserting "related private business use",

4 (D) by striking "RELATED BUSINESS USE"
5 in the heading of subparagraph (B) and insert-
6 ing "RELATED PRIVATE BUSINESS USE", and

7 (E) by striking "GOVERNMENT USE" in the
8 heading thereof and inserting "EXEMPT PERSON
9 USE".

10 (2) Subparagraph (A) of section 141(b)(6) is
11 amended by striking "a governmental unit" and in-
12 serting "an exempt person".

13 (3) Paragraph (7) of section 141(b) is
14 amended—

15 (A) by striking "government use" and in-
16 serting "exempt person use", and

17 (B) by striking "GOVERNMENT USE" in
18 the heading thereof and inserting "EXEMPT
19 PERSON USE".

20 (4) Section 141(b) is amended by striking para-
21 graph (9).

22 (5) Paragraph (1) of section 141(c) is amended
23 by striking "governmental units" and inserting "ex-
24 empt persons".

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1 (6) Section 141 is amended by redesignating
2 subsection (e) as subsection (f) and by inserting
3 after subsection (d) the following new subsection:

4 “(e) CERTAIN ISSUES USED TO PROVIDE RESIDEN-
5 TIAL RENTAL HOUSING FOR FAMILY UNITS.—

6 “(1) IN GENERAL.—Except as provided in para-
7 graph (2), for purposes of this title, the term ‘pri-
8 vate activity bond’ includes any bond issued as part
9 of an issue if any portion of the net proceeds of the
10 issue are to be used (directly or indirectly) by an ex-
11 empt person described in section 150(a)(2)(A)(ii) to
12 provide residential rental property for family units.
13 This paragraph shall not apply if the bond would
14 not be a private activity bond if the section
15 501(c)(3) organization were not an exempt person.

16 “(2) EXCEPTION FOR BONDS USED TO PROVIDE
17 QUALIFIED RESIDENTIAL RENTAL PROJECTS.—

18 Paragraph (1) shall not apply to any bond issued as
19 part of an issue if the portion of such issue which
20 is to be used as described in paragraph (1) is to be
21 used to provide—

22 “(A) a residential rental property for fam-
23 ily units if the first use of such property is pur-
24 suant to such issue,

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1 “(B) qualified residential rental projects
2 (as defined in section 142(d)), or

3 “(C) property which is to be substantially
4 rehabilitated in a rehabilitation beginning with-
5 in the 2-year period ending 1 year after the
6 date of the acquisition of such property.

7 “(3) SUBSTANTIAL REHABILITATION.—

8 “(A) IN GENERAL.—Except as provided in
9 subparagraph (B), rules similar to the rules of
10 section 47(c)(1)(C) shall apply in determining
11 for purposes of paragraph (2)(C) whether prop-
12 erty is substantially rehabilitated.

13 “(B) EXCEPTION.—For purposes of sub-
14 paragraph (A), clause (ii) of section 47(c)(1)(C)
15 shall not apply, but the Secretary may extend
16 the 24-month period in section 47(c)(1)(C)(i)
17 where appropriate due to circumstances not
18 within the control of the owner.

19 “(4) CERTAIN PROPERTY TREATED AS NEW
20 PROPERTY.—Solely for purposes of determining
21 under paragraph (2)(A) whether the 1st use of prop-
22 erty is pursuant to tax-exempt financing—

23 “(A) IN GENERAL.—If—

24 “(i) the 1st use of property is pursu-
25 ant to taxable financing,

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1 “(ii) there was a reasonable expecta-
2 tion (at the time such taxable financing
3 was provided) that such financing would be
4 replaced by tax-exempt financing, and

5 “(iii) the taxable financing is in fact
6 so replaced within a reasonable period
7 after the taxable financing was provided,
8 then the 1st use of such property shall be treat-
9 ed as being pursuant to the tax-exempt financ-
10 ing.

11 “(B) SPECIAL RULE WHERE NO OPERAT-
12 ING STATE OR LOCAL PROGRAM FOR TAX-EX-
13 EMPT FINANCING.—If, at the time of the 1st
14 use of property, there was no operating State or
15 local program for tax-exempt financing of the
16 property, the 1st use of the property shall be
17 treated as pursuant to the 1st tax-exempt fi-
18 nancing of the property.

19 “(C) DEFINITIONS.—For purposes of this
20 paragraph—

21 “(i) TAX-EXEMPT FINANCING.—The
22 term ‘tax-exempt financing’ means financ-
23 ing provided by tax-exempt bonds.

VIC-11

1 “(ii) TAXABLE FINANCING.—The
2 term ‘taxable financing’ means financing
3 which is not tax-exempt financing.”

4 (7) Section 141(f), as redesignated by para-
5 graph (6), is amended—

6 (A) by adding “or” at the end of subpara-
7 graph (E),

8 (B) by striking “, or” at the end of sub-
9 paragraph (F), and inserting in lieu thereof a
10 period, and

11 (C) by striking subparagraph (G).

12 (8) The last sentence of section 144(b)(1) is
13 amended by striking “(determined” and all that fol-
14 lows to the period.

15 (9) Clause (ii) of section 144(e)(2)(C) is
16 amended by striking “a governmental unit” and in-
17 serting “an exempt person”.

18 (10) Section 146(g) is amended—

19 (A) by striking paragraph (2), and

20 (B) by redesignating the remaining para-
21 graphs after paragraph (1) as paragraphs (2)
22 and (3), respectively.

23 (11) The heading of section 146(k)(3) is
24 amended by striking “GOVERNMENTAL” and insert-
25 ing “EXEMPT PERSON”.

VIC-12

1 (12) The heading of section 146(m) is amended
2 by striking "GOVERNMENT" and inserting "EXEMPT
3 PERSON".

4 (13) Subsection (h) of section 147 is amended
5 to read as follows:

6 "(h) CERTAIN RULES NOT TO APPLY TO MORTGAGE
7 REVENUE BONDS AND QUALIFIED STUDENT LOAN
8 BONDS.—Subsections (a), (b), (c), and (d) shall not apply
9 to any qualified mortgage bond, qualified veterans' mort-
10 gage bond, or qualified student loan bond."

11 (14) Section 147 is amended by striking para-
12 graph (4) of subsection (b) and redesignating para-
13 graph (5) of such subsection as paragraph (4).

14 (15) Subparagraph (F) of section 148(d)(3) is
15 amended—

16 (A) by striking "or which is a qualified
17 501(c)(3) bond", and

18 (B) by striking "GOVERNMENTAL USE
19 BONDS AND QUALIFIED 501(c)(3)" in the heading
20 thereof and inserting "EXEMPT PERSON".

21 (16) Subclause (II) of section 148(f)(4)(B)(ii)
22 is amended by striking "(other than a qualified
23 501(c)(3) bond)".

24 (17) Clause (iv) of section 148(f)(4)(C) is
25 amended—