H.R.

To amend the Internal Revenue Code of 1986 to extend the exclusion from gross income for employer-provided health coverage for employees’ spouses and dependent children to coverage provided to other eligible designated beneficiaries of employees.

IN THE HOUSE OF REPRESENTATIVES

Mr. McDermott introduced the following bill; which was referred to the Committee on ______________________

A BILL

To amend the Internal Revenue Code of 1986 to extend the exclusion from gross income for employer-provided health coverage for employees’ spouses and dependent children to coverage provided to other eligible designated beneficiaries of employees.

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

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Tax Equity for Health

5 Plan Beneficiaries Act of 2007”.

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

(a) Exclusion of Contributions.—Section 106 of the Internal Revenue Code of 1986 (relating to contributions by employer to accident and health plans) is amended by adding at the end the following new subsection:

“(f) Coverage Provided for Eligible Beneficiaries of Employees.—

“(1) In General.—Subsection (a) shall apply with respect to an eligible beneficiary and any qualifying child who is a dependent of the eligible beneficiary.

“(2) Qualifying Child; Dependent.—For purposes of this subsection—

“(A) Qualifying Child.—The term ‘qualifying child’ has the meaning given such term by section 152(c).

“(B) Dependent.—The term ‘dependent’ has the meaning given such term by section 105(b).”.

(b) Exclusion of Amounts Expended for Medical Care.—The first sentence of section 105(b) of such Code (relating to amounts expended for medical care) is amended by inserting before the period the following: “and eligible beneficiary and the qualifying children of the eligi-
(c) PAYROLL TAXES.—

(1) Section 3121(a)(2) of such Code is amended—

(A) by inserting “, or his eligible beneficiary or any qualifying children of the eligible beneficiary,” after “his dependents” both places it appears,

(B) by inserting “, and eligible beneficiaries and qualifying children of eligible beneficiaries (within the meaning of section 106(f)),” after “their dependents” the first place it appears, and

(C) by inserting “, eligible beneficiaries, and qualifying children of eligible beneficiaries” after “their dependents” the second place it appears.

(2) Section 3231(e)(1) of such Code is amended—

(A) by inserting “, or his eligible beneficiary or any qualifying children of his eligible beneficiary,” after “his dependents”,

(B) by inserting “, and eligible beneficiaries and qualifying children of eligible bene-
ficiaries (within the meaning of section 106(f)),” after “their dependents” the first place it appears, and

(C) by inserting “, eligible beneficiaries, and qualifying children of eligible beneficiaries” after “their dependents” the second place it appears.

(3) Section 3306(b)(2) of such Code is amended—

(A) by inserting “, or his eligible beneficiary or any qualifying children of his eligible beneficiary,” after “his dependents” both places it appears,

(B) by inserting “, and eligible beneficiaries and qualifying children of eligible beneficiaries (within the meaning of section 106(f)),” after “their dependents” the first place it appears, and

(C) by inserting “, eligible beneficiaries, and qualifying children of eligible beneficiaries” after “their dependents” the second place it appears.

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

“(23) for any payment made to or for the benefit of an employee or his eligible beneficiary or any qualifying children of his eligible beneficiary (within the meaning of section 106(f)) if at the time of such payment it is reasonable to believe that the employee will be able to exclude such payment from income under section 106(f) or under section 105 by reference in section 105(b) to section 106(f);”.

(d) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

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

(a) In General.—Subsection (l) of section 162 of the Internal Revenue Code of 1986 (relating to special rules for health insurance costs of self-employed individuals) is amended by adding at the end the following new paragraph:

“(6) Dependents.—For purposes of this subsection, the term ‘dependents’ shall include the following with respect to the taxpayer—
“(A) any individual who satisfies the requirements of sections 152(c)(3)(A) and 152(d)(2)(H) (determined without regard to subsections (d)(1)(B) and (d)(1)(D) thereof), and

“(B) one individual who does not satisfy the requirements of section 152(c)(3)(A), but who satisfies the requirements of section 152(d)(2)(H) (determined without regard to subsections (d)(1)(B) and (d)(1)(C) thereof).”.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 162(l)(2) of such Code is amended by inserting “or dependent (as defined in paragraph (1))” after “spouse”.

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

SEC. 5. EXTENSION TO ELIGIBLE BENEFICIARIES OF SICK AND ACCIDENT BENEFITS PROVIDED TO MEMBERS OF A VOLUNTARY EMPLOYEES’ BENEFICIARY ASSOCIATION AND THEIR DEPENDENTS.

(a) IN GENERAL.—Section 501(e)(9) of the Internal Revenue Code of 1986 (relating to list of exempt organizations) is amended by adding at the end the following new
sentence: “For purposes of providing for the payment of sick and accident benefits to members of such an association and their dependents, the term ‘dependents’ shall include any individual who is an eligible beneficiary, or qualified child of an eligible beneficiary, as determined under the terms of a medical benefit, health insurance, or other program under which members and their dependents are entitled to sick and accident benefits.”.

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

SEC. 6. FLEXIBLE SPENDING ARRANGEMENTS AND HEALTH REIMBURSEMENT ARRANGEMENTS.

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

(1) for reimbursement from a flexible spending arrangement under regulations in effect on the date of the enactment of this Act may be reimbursed from an employee’s flexible spending arrangement, notwithstanding the fact that such expenses are attributable to an individual who is the employee’s eligible beneficiary under any accident or health plan of the employer, and
(2) for reimbursement from a health reimbursement arrangement under regulations in effect on the date of the enactment of this Act may be reimbursed from an employee’s health reimbursement arrangement, notwithstanding the fact that such expenses are attributable to an individual who is not a spouse or dependent within the meaning of section 152 but who is designated by the employee as eligible to have his or her expenses reimbursed under the health reimbursement arrangement.