



H.R. 6081 – HEROES EARNINGS ASSISTANCE AND RELIEF TAX ACT OF 2008

FLOOR SITUATION

H.R. 6081 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Charles Rangel (D-NY) on May 16, 2008. The bill was referred to the House Committee on Ways and Means, but was never considered.

H.R. 6081 is expected to be considered on the floor on May 20, 2008.

SUMMARY

Eligibility of certain families for economic stimulus rebate: The bill provides that in situations where one spouse filing a joint return is a member of the military and has a valid social security number (SSN) at any time during the taxable year, then the other spouse is deemed to also have a valid SSN for purposes of receiving a rebate check. The bill also provides that Adoption Taxpayer Identification Numbers (ATINs) satisfy the SSN requirement for purposes of determining eligibility for stimulus rebate checks (regardless of whether the adoption giving rise to the ATIN occurs within a military family).

Permanently Includes Combat Pay as Earned Income for Tax Purposes: The bill permanently extends the December 31, 2007 expiration of the ability of American soldiers to include combat pay as earned income for the purposes of the Earned Income Tax Credit (EITC).

New Changes Made to Mortgage Revenue Bonds for Veterans: The bill increases the limit on how many veterans' mortgages may be financed through state issued mortgage bonds in the states of Alaska, Oregon, and Wisconsin from a total of \$25 million to a new total of \$100 million for each state. The bill also repeals a requirement that veterans receiving loans financed by qualified veterans' mortgage bonds issued in California and Texas must have served before 1977 and reduces the eligibility period for applying for financing from 30 years to 25 years following an individual's release from military service.

Survivor Benefits in the Event of the Death of a Qualified, Active Military Service Member: The bill requires that in the event of the death of a qualified, active military service member that the service member's retirement plan must allow the day prior to the date of death to be treated as the date the employee returned to work for the purposes of triggering payment of benefits under their plan. This will allow the survivors of deceased service members to receive survivor benefits that are only issued in the event that a service member terminates their employment on account of death.

Treating Differential Military Pay as Wages: The bill establishes that when an individual is called to active duty in the armed forces and their employer voluntarily pays the difference between the individual's civilian salary and the salary they receive from the military while on active duty (known as 'differential pay'), the differential pay may be treated as wage compensation for retirement plan purposes and the bill permits wage withholding from such pay.

Time Extension for Service Disabled Veterans to File for Tax Refunds or Credits: The bill will extend the amount of time provided for qualified service-disabled veterans to file for certain tax refunds or credits that are awarded after the veterans' tax return has already been filed.

Penalty-Free Withdrawals from their Retirement Plans for Active Duty Reservists:

The bill permanently extends the authorization for active duty reservists to make penalty-free withdrawals from their retirement plans; the current authorization expired on December 31, 2007.



Clarification related to the exclusion of certain property tax rebates for volunteer firefighters and emergency medical responders: Under prior law, reductions or rebates of taxes by a State or local government in exchange for services of an individual were treated as taxable income. Under the recently enacted "Mortgage Forgiveness Debt Relief Act of 2007," a portion of such income (up to \$30 per month) is excluded from gross income for volunteer firefighters and emergency medical responders through 2010. This bill clarifies that any such reductions or rebates of taxes provided by State or local governments for volunteer firefighters and emergency medical responders is not subject to social security tax or unemployment tax.

Disclosure of Tax Return Information to the Department of Veterans Affairs: The bill permanently extends the authorization for the Social Security Administration (SSA) to disclose tax return information to the Department of Veterans Affairs for the purposes of determining eligibility for certain veteran's programs, which is set to expire on September 30, 2008.

Contributing Military Death Benefit Payments to Roth IRAs or Education Savings Accounts: The bill will permit recipients of military death benefit payments to contribute those payments to a Roth IRA or an education savings account.

Exit tax on expatriates: Under current law, expatriates who renounce their citizenship, as well as certain long-term residents who terminate that residency are generally subject to U.S. taxes for ten years on their U.S.-source income. The ten year tax does not apply if exceptions are met for income, net worth, or certain dual citizenship status. This provision would replace the current tax with an "exit tax." The net unrealized gain in the value of an expatriate's assets that exceeds \$600,000 would be taxed as if sold at fair market value on the day before the expatriation.

Parity in the application of Mental Health Benefits: The bill extends provisions in the Employee Retirement Income Security Act of 1974, Public Health Service Act, and the Internal Revenue Code that prohibits group health plans that provide both medical and surgical benefits from imposing a lifetime or annual dollar limit on mental health benefits that are not imposed on medical and surgical benefits through December 31, 2008.

Incrementally increasing penalty for failure to file tax returns: The bill provides that the penalty for the failure to file applicable returns increases over time. The minimum penalty for failure to file a return within 60 days of its due date is the lesser of \$100 or 100 percent of the amount of the tax. The provision would raise the minimum amount to \$125 or 100 percent of the amount of the tax.

Treatment of Certain Domestically Controlled Foreign Companies as American Employers: The bill would require employment taxes to be collected on the wage payments to American employees working in a foreign country for services related to a U.S. government contract.

BACKGROUND

H.R. 6081 is an updated version of H.R. 3997, which was amended and passed between the House and Senate several times until the Senate's final amendment to the bill. H.R. 3997 was originally introduced by Rep. Rangel on October 30, 2007. This version of the bill passed the House, as amended, on December 18, 2007. As originally passed by the House, H.R. 3997 provided several tax benefits intended to assist military personnel and their families, veterans, as well as to other emergency responder personnel.

The final amended version of H.R. 3997 as passed by the Senate would have cost \$1.4 billion over 10 years, and was offset by numerous provisions, including increased penalties against expatriates and a provision to allowing reservists to switch back into their civilian health insurance plan. No further action was taken on H.R. 3977.



According to the IRS, the Earned Income Tax Credit (EITC) "is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit."

Mortgage revenue bonds are a type of "private activity bond," which CRS explains as financial products used by state governments to finance certain activities: "The federal tax code allows state and local governments to use tax-exempt bonds to finance certain projects that would be considered private activities. The private activities that can be financed with tax-exempt bonds are called "qualified private activities." Congress uses an annual state volume cap to limit the amount of tax-exempt bond financing generally and restricts the types of qualified private activities that would qualify for tax-exempt financing to selected projects defined in the tax code."

COST

The Congressional Budget Office (CBO) did not have a cost estimate of H.R. 6091 available at the time of publication.

STAFF CONTACT

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