

107TH CONGRESS  
1ST SESSION

# S. 590

To amend the Internal Revenue Code of 1986 to allow a refundable tax credit for health insurance costs, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

MARCH 21, 2001

Mr. JEFFORDS (for himself, Mr. BREAUX, Mr. FRIST, Mrs. LINCOLN, Ms. SNOWE, Mr. CHAFEE, and Mr. CARPER) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a refundable tax credit for health insurance costs, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Relief, Equity, Access,  
5 and Coverage for Health (REACH) Act”.

6 **SEC. 2. REFUNDABLE HEALTH INSURANCE COSTS CREDIT.**

7 (a) IN GENERAL.—Subpart C of part IV of sub-  
8 chapter A of chapter 1 of the Internal Revenue Code of  
9 1986 (relating to refundable personal credits) is amended

1 by redesignating section 35 as section 36 and inserting  
 2 after section 34 the following new section:

3 **“SEC. 35. HEALTH INSURANCE COSTS.**

4       “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 5 dividual, there shall be allowed as a credit against the tax  
 6 imposed by this subtitle for the taxable year an amount  
 7 equal to the amount paid by the taxpayer during the tax-  
 8 able year for qualified health insurance for the taxpayer  
 9 and the taxpayer’s spouse and dependents.

10       “(b) LIMITATIONS.—

11               “(1) MAXIMUM DOLLAR AMOUNT.—

12                       “(A) IN GENERAL.—The amount allowed  
 13 as a credit under subsection (a) to the taxpayer  
 14 for the taxable year shall not exceed the sum of  
 15 the monthly limitations for coverage months  
 16 during such taxable year.

17                       “(B) MONTHLY LIMITATION.—The month-  
 18 ly limitation for each coverage month during  
 19 the taxable year is the amount equal to 1/12  
 20 of—

21                               “(i) in the case of self-only coverage,  
 22                               \$1,000, and

23                               “(ii) in the case of family coverage,  
 24                               \$2,500.

1           “(C) LIMITATION FOR EMPLOYEES WITH  
2 EMPLOYER SUBSIDIZED COVERAGE.—In the  
3 case of an individual who is eligible to partici-  
4 pate in any subsidized health plan (within the  
5 meaning of section 162(l)(2)) maintained by  
6 any employer of the taxpayer or of the spouse  
7 of the taxpayer for any coverage month, sub-  
8 paragraph (B) shall be applied by substituting  
9 ‘\$400’ for ‘\$1,000’ and ‘\$1,000’ for ‘\$2,500’  
10 for such month.

11           “(2) PHASEOUT OF CREDIT.—

12           “(A) IN GENERAL.—The amount which  
13 would (but for this paragraph) be taken into ac-  
14 count under subsection (a) shall be reduced  
15 (but not below zero) by the amount determined  
16 under subparagraph (B).

17           “(B) AMOUNT OF REDUCTION.—The  
18 amount determined under this subparagraph is  
19 the amount which bears the same ratio to the  
20 amount which would be so taken into account  
21 for the taxable year as—

22                   “(i) the excess of—

23                           “(I) the taxpayer’s modified ad-  
24 justed gross income for the preceding  
25 taxable year, over

1                   “(II) \$35,000 (\$55,000 in the  
2                   case of family coverage), bears to

3                   “(ii) \$10,000.

4                   “(C) MODIFIED ADJUSTED GROSS IN-  
5                   COME.—The term ‘modified adjusted gross in-  
6                   come’ means adjusted gross income  
7                   determined—

8                   “(i) without regard to this section and  
9                   sections 911, 931, and 933, and

10                   “(ii) after application of sections 86,  
11                   135, 137, 219, 221, and 469.

12                   “(3) COORDINATION WITH DEDUCTION FOR  
13                   HEALTH INSURANCE COSTS OF SELF-EMPLOYED IN-  
14                   DIVIDUALS.—In the case of a taxpayer who is eligi-  
15                   ble to deduct any amount under section 162(l) for  
16                   the taxable year, this section shall apply only if the  
17                   taxpayer elects not to claim any amount as a deduc-  
18                   tion under such section for such year.

19                   “(4) INFLATION ADJUSTMENT.—

20                   “(A) IN GENERAL.—In the case of any  
21                   taxable year beginning after 2002, each of the  
22                   dollar amounts referred to in paragraphs  
23                   (1)(B), (1)(C), and (2)(B) shall be increased by  
24                   an amount equal to—

25                   “(i) such dollar amount, multiplied by

1           “(ii) the cost-of-living adjustment de-  
2           termined under section (1)(f)(3) for the  
3           calendar year in which the taxable year be-  
4           gins, by substituting ‘2001’ for ‘1992’.

5           “(B) ROUNDING.—If any amount as ad-  
6           justed under subparagraph (A) is not a multiple  
7           of \$50, such amount shall be rounded to the  
8           nearest multiple of \$50.

9           “(c) COVERAGE MONTH DEFINED.—For purposes of  
10 this section—

11           “(1) IN GENERAL.—The term ‘coverage month’  
12           means, with respect to an individual, any month if—

13           “(A) as of the first day of such month  
14           such individual is covered by qualified health in-  
15           surance, and

16           “(B) the premium for coverage under such  
17           insurance, or any portion of the premium, for  
18           such month is paid by the taxpayer.

19           “(2) EXCLUSION OF MONTHS IN WHICH INDI-  
20           VIDUAL IS ELIGIBLE FOR COVERAGE UNDER CER-  
21           TAIN HEALTH PROGRAMS.—Such term shall not in-  
22           clude any month during a taxable year with respect  
23           to an individual if, as of the first day of such month,  
24           such individual is eligible—

1           “(A) for any benefits under title XVIII of  
2 the Social Security Act,

3           “(B) to participate in the program under  
4 title XIX or XXI of such Act.

5           “(C) for benefits under chapter 17 of title  
6 38, United States Code,

7           “(D) for benefits under chapter 55 of title  
8 10, United States Code,

9           “(E) to participate in the program under  
10 chapter 89 of title 5, United States Code, or  
11 any similar program for State or local govern-  
12 ment employees, or

13           “(F) for benefits under any medical care  
14 program under the Indian Health Care Im-  
15 provement Act or any other provision of law.

16           “(3) EXCLUSION OF MONTHS IN WHICH INDI-  
17 VIDUAL IS IMPRISONED.—Such term shall not in-  
18 clude any month with respect to an individual if, as  
19 of the first day of such month, such individual is im-  
20 prisoned under Federal, State, or local authority.

21           “(d) QUALIFIED HEALTH INSURANCE.—For pur-  
22 poses of this section, the term ‘qualified health insurance’  
23 means health insurance coverage (as defined in section  
24 9832(b)(1)), including coverage under a COBRA continu-  
25 ation provision (as defined in section 9832(d)(1)).

1       “(e) MEDICAL SAVINGS ACCOUNT CONTRIBU-  
2 TIONS.—

3           “(1) IN GENERAL.—If a deduction would (but  
4 for paragraph (2)) be allowed under section 220 to  
5 the taxpayer for a payment for the taxable year to  
6 the medical savings account of an individual, sub-  
7 section (a) shall be applied by treating such payment  
8 as a payment for qualified health insurance for such  
9 individual.

10          “(2) DENIAL OF DOUBLE BENEFIT.—No deduc-  
11 tion shall be allowed under section 220 for that por-  
12 tion of the payments otherwise allowable as a deduc-  
13 tion under section 220 for the taxable year which is  
14 equal to the amount of credit allowed for such tax-  
15 able year by reason of this subsection.

16       “(f) SPECIAL RULES.—

17           “(1) COORDINATION WITH MEDICAL EXPENSE  
18 DEDUCTION.—The amount which would (but for this  
19 paragraph) be taken into account by the taxpayer  
20 under section 213 for the taxable year shall be re-  
21 duced by the credit (if any) allowed by this section  
22 to the taxpayer for such year.

23           “(2) DENIAL OF CREDIT TO DEPENDENTS.—No  
24 credit shall be allowed under this section to any indi-  
25 vidual with respect to whom a deduction under sec-

1       tion 151 is allowable to another taxpayer for a tax-  
2       able year beginning in the calendar year in which  
3       such individual's taxable year begins.

4               “(3) COORDINATION WITH ADVANCE PAY-  
5       MENT.—Rules similar to the rules of section 32(g)  
6       shall apply to any credit to which this section ap-  
7       plies.

8               “(g) EXPENSES MUST BE SUBSTANTIATED.—A pay-  
9       ment for insurance to which subsection (a) applies may  
10      be taken into account under this section only if the tax-  
11      payer substantiates such payment in such form as the Sec-  
12      retary may prescribe.

13              “(h) REGULATIONS.—The Secretary shall prescribe  
14      such regulations as may be necessary to carry out the pur-  
15      poses of this section, including regulations under which—

16                      “(1) an awareness campaign is established to  
17                      educate the public, employers, insurance issuers, and  
18                      agents or others who market health insurance about  
19                      the requirements and procedures under this section,  
20                      including—

21                                      “(A) criteria for insurance products and  
22                                      group health coverage which constitute qualified  
23                                      health insurance under this section,

24                                      “(B) procedures by which employers who  
25                                      do not offer health insurance coverage to their

1 employees may assist such employees in secur-  
2 ing qualified health insurance, and

3 “(C) guidelines for marketing schemes and  
4 practices which are appropriate and acceptable  
5 in connection with the credit under this section,  
6 and

7 “(2) periodic reviews or audits of health insur-  
8 ance policies and group health plans (and related  
9 promotional marketing materials) which are mar-  
10 keted to eligible taxpayers under this section are  
11 conducted for the purpose of determining—

12 “(A) whether such policies and plans con-  
13 stitute qualified health insurance under this  
14 section, and

15 “(B) whether offenses described in section  
16 7276 occur.”.

17 (b) INFORMATION REPORTING.—

18 (1) IN GENERAL.—Subpart B of part III of  
19 subchapter A of chapter 61 of such Code (relating  
20 to information concerning transactions with other  
21 persons) is amended by inserting after section  
22 6050S the following new section:

1 **“SEC. 6050T. RETURNS RELATING TO PAYMENTS FOR**  
2 **QUALIFIED HEALTH INSURANCE.**

3 “(a) IN GENERAL.—Any person who, in connection  
4 with a trade or business conducted by such person, re-  
5 ceives payments during any calendar year from any indi-  
6 vidual for coverage of such individual or any other indi-  
7 vidual under creditable health insurance, shall make the  
8 return described in subsection (b) (at such time as the  
9 Secretary may by regulations prescribe) with respect to  
10 each individual from whom such payments were received.

11 “(b) FORM AND MANNER OF RETURNS.—A return  
12 is described in this subsection if such return—

13 “(1) is in such form as the Secretary may pre-  
14 scribe, and

15 “(2) contains—

16 “(A) the name, address, and TIN of the  
17 individual from whom payments described in  
18 subsection (a) were received,

19 “(B) the name, address, and TIN of each  
20 individual who was provided by such person  
21 with coverage under creditable health insurance  
22 by reason of such payments and the period of  
23 such coverage,

24 “(C) the aggregate amount of payments  
25 described in subsection (a),

1           “(D) the qualified health insurance credit  
2           advance amount (as defined in section 7527(e))  
3           received by such person with respect to the indi-  
4           vidual described in subparagraph (A), and

5           “(E) such other information as the Sec-  
6           retary may reasonably prescribe.

7           “(c) CREDITABLE HEALTH INSURANCE.—For pur-  
8           poses of this section, the term ‘creditable health insurance’  
9           means qualified health insurance (as defined in section  
10          35(d)) other than, to the extent provided in regulations  
11          prescribed by the Secretary, any insurance covering an in-  
12          dividual if no credit is allowable under section 35 with re-  
13          spect to such coverage.

14          “(d) STATEMENTS TO BE FURNISHED TO INDIVID-  
15          UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
16          QUIRED.—Every person required to make a return under  
17          subsection (a) shall furnish to each individual whose name  
18          is required under subsection (b)(2)(A) to be set forth in  
19          such return a written statement showing—

20                 “(1) the name and address of the person re-  
21                 quired to make such return and the phone number  
22                 of the information contact for such person,

23                 “(2) the aggregate amount of payments de-  
24                 scribed in subsection (a) received by the person re-

1       quired to make such return from the individual to  
2       whom the statement is required to be furnished,

3               “(3) the information required under subsection  
4       (b)(2)(B) with respect to such payments, and

5               “(4) the qualified health insurance credit ad-  
6       vance amount (as defined in section 7527(e)) re-  
7       ceived by such person with respect to the individual  
8       described in paragraph (2).

9       The written statement required under the preceding sen-  
10      tence shall be furnished on or before January 31 of the  
11      year following the calendar year for which the return  
12      under subsection (a) is required to be made.

13           “(e) RETURNS WHICH WOULD BE REQUIRED TO BE  
14      MADE BY 2 OR MORE PERSONS.—Except to the extent  
15      provided in regulations prescribed by the Secretary, in the  
16      case of any amount received by any person on behalf of  
17      another person, only the person first receiving such  
18      amount shall be required to make the return under sub-  
19      section (a).”.

20           (2) ASSESSABLE PENALTIES.—

21                   (A)   Subparagraph   (B)   of   section  
22                   6724(d)(1) of such Code (relating to defini-  
23                   tions) is amended by redesignating clauses (xi)  
24                   through (xvii) as clauses (xii) through (xviii),

1           respectively, and by inserting after clause (x)  
2           the following new clause:

3                   “(xi) section 6050T (relating to re-  
4                   turns relating to payments for qualified  
5                   health insurance),”.

6           (B) Paragraph (2) of section 6724(d) of  
7           such Code is amended by striking “or” at the  
8           end of the next to last subparagraph, by strik-  
9           ing the period at the end of the last subpara-  
10          graph and inserting “, or”, and by adding at  
11          the end the following new subparagraph:

12                   “(BB) section 6050T(d) (relating to re-  
13                   turns relating to payments for qualified health  
14                   insurance).”.

15          (3) CLERICAL AMENDMENT.—The table of sec-  
16          tions for subpart B of part III of subchapter A of  
17          chapter 61 of such Code is amended by inserting  
18          after the item relating to section 6050S the fol-  
19          lowing new item:

                  “Sec. 6050T. Returns relating to payments for qualified health  
                  insurance.”.

20          (c) CRIMINAL PENALTY FOR FRAUD.—Subchapter B  
21          of chapter 75 of such Code (relating to other offenses)  
22          is amended by adding at the end the following new section:

1 **“SEC. 7276. PENALTIES FOR OFFENSES RELATING TO**  
2 **HEALTH INSURANCE TAX CREDIT.**

3 “Any person who knowingly misuses Department of  
4 the Treasury names, symbols, titles, or initials to convey  
5 the false impression of association with, or approval or en-  
6 dorsement by, the Department of the Treasury of any in-  
7 surance products or group health coverage in connection  
8 with the credit for health insurance costs under section  
9 35 shall on conviction thereof be fined not more than  
10 \$10,000, or imprisoned not more than 1 year, or both.”.

11 (d) CONFORMING AMENDMENTS.—

12 (1) Section 162(l) of the Internal Revenue Code  
13 of 1986 is amended by adding at the end the fol-  
14 lowing new paragraph:

15 “(6) ELECTION TO HAVE SUBSECTION  
16 APPLY.—No deduction shall be allowed under para-  
17 graph (1) for a taxable year unless the taxpayer  
18 elects to have this subsection apply for such year.”.

19 (2) Paragraph (2) of section 1324(b) of title  
20 31, United States Code, is amended by inserting be-  
21 fore the period “, or from section 35 of such Code”.

22 (3) The table of sections for subpart C of part  
23 IV of subchapter A of chapter 1 of the Internal Rev-  
24 enue Code of 1986 is amended by striking the last  
25 item and inserting the following new items:

“Sec. 35. Health insurance costs.

“Sec. 36. Overpayments of tax.”.

1           (4) The table of sections for subchapter B of  
2 chapter 75 of the Internal Revenue Code of 1986 is  
3 amended by adding at the end the following new  
4 item:

“Sec. 7276. Penalties for offenses relating to health insurance tax  
credit.”.

5           (e) EFFECTIVE DATES.—

6           (1) IN GENERAL.—Except as provided in para-  
7 graph (2), the amendments made by this section  
8 shall apply to taxable years beginning after Decem-  
9 ber 31, 2001.

10           (2) PENALTIES.—The amendments made by  
11 subsections (c) and (d)(4) shall take effect on the  
12 date of the enactment of this Act.

13 **SEC. 3. ADVANCE PAYMENT OF CREDIT TO ISSUERS OF**  
14 **QUALIFIED HEALTH INSURANCE.**

15           (a) IN GENERAL.—Chapter 77 of the Internal Rev-  
16 enue Code of 1986 (relating to miscellaneous provisions)  
17 is amended by adding at the end the following new section:

18 **“SEC. 7527. ADVANCE PAYMENT OF HEALTH INSURANCE**  
19 **CREDIT TO ISSUERS OF QUALIFIED HEALTH**  
20 **INSURANCE.**

21           “(a) GENERAL RULE.—In the case of an eligible indi-  
22 vidual, the Secretary shall make payments to the health  
23 insurance issuer of such individual’s qualified health in-

1 surance equal to such individual's qualified health insur-  
2 ance credit advance amount with respect to such issuer.

3 “(b) ELIGIBLE INDIVIDUAL.—For purposes of this  
4 section, the term ‘eligible individual’ means any  
5 individual—

6 “(1) who purchases qualified health insurance  
7 (as defined in section 35(c)), and

8 “(2) for whom a qualified health insurance  
9 credit eligibility certificate is in effect.

10 “(c) HEALTH INSURANCE ISSUER.—For purposes of  
11 this section, the term ‘health insurance issuer’ has the  
12 meaning given such term by section 9832(b)(2) (deter-  
13 mined without regard to the last sentence thereof).

14 “(d) QUALIFIED HEALTH INSURANCE CREDIT ELI-  
15 GIBILITY CERTIFICATE.—For purposes of this section, a  
16 qualified health insurance credit eligibility certificate is a  
17 statement furnished by an individual to a qualified health  
18 insurance issuer which—

19 “(1) certifies that the individual will be eligible  
20 to receive the credit provided by section 35 for the  
21 taxable year,

22 “(2) estimates the amount of such credit for  
23 such taxable year, and

24 “(3) provides such other information as the  
25 Secretary may require for purposes of this section.

1       “(e) QUALIFIED HEALTH INSURANCE CREDIT AD-  
 2 VANCE AMOUNT.—For purposes of this section, the term  
 3 ‘qualified health insurance credit advance amount’ means,  
 4 with respect to any qualified health insurance issuer of  
 5 qualified health insurance, an estimate of the amount of  
 6 credit allowable under section 35 to the individual for the  
 7 taxable year which is attributable to the insurance pro-  
 8 vided to the individual by such issuer.

9       “(f) REQUIRED DOCUMENTATION FOR RECEIPT OF  
 10 PAYMENTS OF ADVANCE AMOUNT.—No payment of a  
 11 qualified health insurance credit advance amount with re-  
 12 spect to any eligible individual may be made under sub-  
 13 section (a) unless the health insurance issuer provides to  
 14 the Secretary—

15               “(1) the qualified health insurance credit eligi-  
 16 bility certificate of such individual, and

17               “(2) the return relating to such individual  
 18 under section 6050T.

19       “(g) REGULATIONS.—The Secretary shall prescribe  
 20 such regulations as may be necessary to carry out the pur-  
 21 poses of this section.”.

22       (b) CLERICAL AMENDMENT.—The table of sections  
 23 for chapter 77 of such Code is amended by adding at the  
 24 end the following new item:

“Sec. 7527. Advance payment of health insurance credit for pur-  
 chasers of qualified health insurance.”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall take effect on January 1, 2002.

3 **SEC. 4. COMBINATION OF COST OF SCHIP COVERAGE FOR**  
4 **A TARGETED LOW-INCOME CHILD WITH RE-**  
5 **FUNDABLE HEALTH INSURANCE COSTS**  
6 **CREDIT TO PURCHASE FAMILY COVERAGE.**

7 (a) IN GENERAL.—Section 2105(c)(3) of the Social  
8 Security Act (42 U.S.C. 1397ee(c)(3)) is amended—

9 (1) by redesignating subparagraphs (A) and  
10 (B) as clauses (i) and (ii), respectively, and indent-  
11 ing such clauses appropriately;

12 (2) by striking “Payment” and inserting the  
13 following:

14 “(A) IN GENERAL.—Payment”; and

15 (3) by adding at the end the following new sub-  
16 paragraph:

17 “(B) COMBINATION OF COST OF PRO-  
18 VIDING CHILD HEALTH ASSISTANCE WITH RE-  
19 FUNDABLE HEALTH INSURANCE COSTS TAX  
20 CREDIT.—

21 “(i) IN GENERAL.—In the case of a  
22 targeted low-income child who is eligible  
23 for child health assistance and whose par-  
24 ent is eligible for the refundable health in-  
25 surance costs tax credit provided under

1 section 35 of the Internal Revenue Code of  
2 1986, payment may be made to a State  
3 under subsection (a)(1) for payment by the  
4 State to a health insurance issuer that re-  
5 ceives advance payment of such credit on  
6 behalf of the parent under section 7527 of  
7 the Internal Revenue Code of 1986, of an  
8 amount equal to the estimated cost of pro-  
9 viding the child with child health assist-  
10 ance for a calendar year, but only if—

11 “(I) the health insurance issuer  
12 uses the State payment made under  
13 this subparagraph and the advance  
14 credit payment to provide family cov-  
15 erage for the parent and the targeted  
16 low-income child; and

17 “(II) the State establishes to the  
18 satisfaction of the Secretary that the  
19 conditions set forth in clauses (i) and  
20 (ii) of subparagraph (A) are met.

21 “(ii) DEFINITION OF HEALTH INSUR-  
22 ANCE ISSUER.—In this subparagraph, the  
23 term ‘health insurance issuer’ has the  
24 meaning given such term in section  
25 9832(b)(2) of the Internal Revenue Code

1                   of 1986 (determined without regard to the  
2                   last sentence thereof).”.

3       (b) **EFFECTIVE DATE.**—The amendments made by  
4 this section take effect on January 1, 2002.

○