

Tax Relief and Health Care Act of 2006

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Congress recently passed H.R. 6111, the Tax Relief and Health Care Act of 2006. President Bush signed the bill into law on December 20, 2006.

The following Short Summary of Tax and Other Provisions in H.R. 6111 was released by the Committee on Ways and Means.

Extension and Modification of Certain Tax Relief Provisions

The Tax Relief and Health Care Act of 2006 extends through 2007, and in certain circumstances modifies, provisions which either expired at the end of 2005 or will expire at the end of 2006.

- Above-the-line deduction for higher education expenses.
- Extension of new markets tax credit and modification for rural counties.
- State and local sales tax deduction.
- Extension of the Research and Development (R&D) Tax Credit and expansion to enhance alternative methods of determining the credit.
- Extension and expansion of the Work Opportunity Tax Credit (WOTC) for hiring individuals who face barriers to employment – and combination of the credit with the Welfare-to-Work Tax Credit in 2007.
- Welfare-to-Work Tax Credit for hiring individuals who have received public assistance for an extended period of time – and combination with the WOTC in 2007.
- Treating combat pay as earned income for purposes of the earned income credit calculation.
- Authority to issue Qualified Zone Academy Bonds (QZABs) for school modernization, equipment and teacher training in high-poverty areas.
- Above-the-line deduction for out-of-pocket teacher classroom expenses.
- Expensing of brownfields remediation costs. In addition to the extension, the definition of a contaminated site is expanded to include sites contaminated by petroleum products.
- Tax incentives to revitalize the District of Columbia.
- Incentives for business activity on Indian reservations.
- Fifteen-year depreciation for leasehold improvements.
- Fifteen-year depreciation for restaurant improvements.
- Transfer of rum excise taxes to Puerto Rico and the Virgin Islands.
- Mental health benefit parity rules.
- Enhanced charitable deduction for scientific property and computer donations.
- Availability of Archer MSAs (Medical Savings Accounts).
- Suspension of limit on percentage depletion for oil and gas produced from marginal wells.
- Creation of the economic development credit for American Samoa.
- Extension of Gulf Opportunity Zone bonus depreciation to certain highly damaged areas.
- Authority for IRS undercover operations.
- Authority for the IRS to disclose certain tax information for certain purposes.
- Special rule for election under expired provisions.

Extension of Certain Expiring Energy Provisions and Other Energy Provisions

The Tax Relief and Health Care Act of 2006 provides an extension through 2008 of numerous energy provisions that will expire at the end of 2007. The Tax Relief and Health Care Act of 2006 also contains a package of other energy provisions.

- Extension of credit for electricity produced from certain renewable resources.
- Extension of credit to holders of clean renewable energy bonds.
- Modification of the clean coal gasification tax credit.
- Extension of deduction for energy efficient commercial buildings.
- Extension of credit for new energy efficient homes.
- Extension of credit for residential energy efficient property.
- Extension of energy credit for businesses producing electricity from solar energy, fuel cells or microturbines.
- Extension of reduced excise tax rate for qualified methanol or ethanol fuel produced from coal.
- New special depreciation allowance for cellulosic biomass ethanol plant property.
- Expands qualified expenditures permitted from the Leaking Underground Storage Tank (LUST) Trust Fund.
- Modification of the coke and coke gas production tax credit.

Health Savings Account Provisions

The Tax Relief and Health Care Act of 2006 also contains a package of provisions designed to improve Health Savings Accounts (HSAs).

- FSA and HRA terminations to fund HSAs.
 - Allow rollovers from health FSAs and HRAs into HSAs.
 - Certain FSA coverage treated as disregarded coverage.
- Repeal of annual plan deductible limitation on HSA contributions.
- Modification of cost-of-living adjustment.
- Expanded contribution limitation for part-year coverage.
- Modification of employer comparable contribution requirements for contributions made to nonhighly compensated employees.
- One-time rollovers from IRAs into HSAs.

Other Tax Relief Provisions

The Tax Relief and Health Care Act of 2006 also contains a package of other tax provisions designed to provide additional tax relief and certainty to taxpayers.

- Manufacturing deduction for U.S. businesses with branches in Puerto Rico.
- Refundable credit with respect to certain long-term unused AMT credits.
- Mine safety tax incentives.
- Reform of the IRS Whistleblower Program.
- Increase and expansion of the frivolous tax submission penalty.
- Addition of the meningococcal and human papillomavirus vaccines to the list of taxable vaccines.
- Permanency of certain provisions enacted in the Tax Increase Prevention and Reconciliation Act of 2005.
- Modification of the treatment of shipping within the Great Lakes to ensure that vessel operators in this region can qualify for the alternative tonnage tax regime.
- Modification of the mortgage revenue bond rules to make affordable mortgages more accessible to veterans.
- Capital gains exclusion on sales of homes by non-military intelligence officers who are stationed abroad.
- Special rollover rules for certain Federal judicial officers who sell property to comply with certain conflict-of-interest requirements.
- Itemized deduction for the cost of premiums for mortgage insurance on qualified personal residences.
- Modification of the refund rules with respect to kerosene used for certain exempt aviation purposes.
- Enhancement of tax administration by municipalities.
- Implementation of wine labeling trade agreement with the European Union.

- Clarification of the railroad track maintenance credit.
- Modification of excise tax on unrelated business taxable income of charitable remainder trusts.
- Permanency of provision regarding the tax treatment of loans to qualified continuing care facilities contained in the Tax Increase Prevention and Reconciliation Act of 2005.
- Technical corrections to recent tax legislation.

Miscellaneous Provisions

The Tax Relief and Health Care Act of 2006 also contains a package of miscellaneous provisions.

- Exploration of the Outer Continental Shelf.
- Modification to the Abandoned Mine Land (AML) program.
- Limitations on imported cigarettes.
- Extension of the ethanol tariff schedule.
- Sales of interests on federal land.
- Continued scholarships for children in working families in Washington, D.C.
- Study of national database on elder abuse.

Additional Information

- Ways and Means Committee
- Senate Finance Committee

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