DEFENDERS OF FREEDOM TAX RELIEF ACT OF 2007

December 18, 2007

Title	Description	10-Yr Cost
1. Veteran mortgage bonds	Qualified mortgage bonds may be issued to finance mortgages for veterans who served in active military without regard to the first-time homebuyer requirement. This exception expires on December 31, 2007. The proposal would make the provision permanent. The proposal also increases the veteran mortgage bond volume limitation and eliminates the definition of a qualified veteran.	$ 826 M $ 297 M
2. BAH disregarded for low-income housing	To make housing financed by low income housing tax credits (LIHTC) available to low-income servicemembers, this proposal excludes a service member's basic allowance for housing (BAH) from income when determining income eligibility for LIHTC for project before 2015. For the BAH to be disregarded, the state governor must designate the area as being in need of low-income housing for the military.	$ 155 M
3. EITC combat pay election	To maximize the earned income tax credit, a servicemember may elect to include combat pay as earned income for purposes of EITC. This provision expires on December 31, 2007. The proposal would make this election permanent.	$ 83 M
4. Tax Refund for disability awards	VA disability claims filed by military retirees may be delayed for years. The VA disability award is retroactive to the date of the application and makes a portion of past military retired pay tax-free. But to claim a tax refund, the statute of limitations for filing a tax refund expires after three years and many of these disabled veterans are barred from receiving tax refunds. The proposal extends the statute of limitations until the end of the 1-year period beginning on the date of the VA disability determination.	$ 10 M
5. Differential military pay as wages	Many employers voluntarily eliminate any pay gap between the Reservists' civilian pay and military pay by paying the difference. The proposal would treat the pay gap as wages requiring information reporting and subject the differential pay payments to withholding. The proposal would also make it easier for employers to contribute to their activated employee's retirement plans.	$ 8 M
6. Tax credit for employers of Reservists	The proposal would provide small businesses of less than 50 employees a tax credit equal to 20% of the differential pay (a maximum tax credit of $4,000) that the employer pays to any employee who is called up for active duty.	$ 7 M

7. Penalty-free withdrawals from IRAs for Reservists	Currently, a Reservist may make an early withdrawal from a retirement plan without triggering a 10% early withdrawal tax and a Reservist has two-years from the last day of the active duty period to contribute distributions to an IRA. This exception expires on December 31, 2007. The proposal would make this exception permanent.	$ 6 M
8. Survivor and disability payments with respect to qualified military service	The proposal would treat a Reservist killed during military service as if employment terminated due to death for purposes of the employer's life insurance, accelerated vesting and other survivor benefits. For benefit accrual purposes, a Reservist killed during military service is treated as if re-hired one day before death.	$ 2 M
9. IRAs for military death gratuities	The proposal would allow survivors of soldiers killed in combat to contribute any amount up to the sum of the $100,000 death gratuity payment into a Roth IRA and Coverdell accounts.	$ 4 M
10. Intelligence service members	Intelligence service employees may suspend the 5-year period for exclusion of gain on the sale of a principal residence for up to an additional 10 years while they are stationed overseas. This provision expires on December 31, 2010. The proposal would make the exception permanent. Also this proposal would no longer require intelligence officers to be stationed overseas to elect the suspension.	$ 3 M
11. State gifts to soldiers	State payments to service members as thanks for their war service will be treated as nontaxable gifts.	No Cost
12. Suspension of 5-year period during Peace Corps Service	Like for Intelligence service employees, this provision allows Peace Corps members to suspend the 5-year period for exclusion of gain on the sale of a principal residence for up to an additional 10 years while they work overseas.	$ 1 M
13. Special distribution rules for Reservists' unused health benefits	Currently, if a Reservist is called up for active duty, any unused funds in a health flexible spending account or benefits in a civilian employer's cafeteria plan must be lost. This provision allows a Reservist called up for active duty for at least 180 days to withdraw these funds without the health flexible spending account or cafeteria plan losing its status as such.	Negligible Cost
14. Permanent extension of disclosure authority to the VA	Current law allows the Social Security Administration to disclose tax return information regarding net earnings for purposes of verifying any needs-based pension, dependency and indemnity compensation to parents of a deceased veteran, hospice care, or certain unemployment compensation. This provision expires on September 30, 2008. Also included is a technical tax correction to IRC 6103.	No Cost
15. Parity in Mental Health Benefits	This provision is a one-year extension of parity in the application of certain limits to mental health benefits parity.	$ 25 M
TOTAL COST OF PROPOSALS		**$ 1.427 B**

Revenue Offset		
1. Individual Expatriation	The proposal would impose a new 'mark-to-market' tax on certain U.S. citizens and long-term residents who terminate their U.S. residence. In general, such individuals would be taxed on the net unrealized gain exceeding $600,000 in their property, as if such property were sold for fair market value on the day prior to the expatriation or the U.S. residency termination. (This uses the House language passed on Dec. 18.)	$ 684 M
2. Reservists may opt back into their civilian health insurance	This proposal creates a new special enrollment right to allow Reservists formerly covered under TRICARE to opt into their civilian employer's health insurance plan at any time.	$ 125 M
3. Increase the minimum penalty for failure to file from $100 to $225	The proposal increases the minimum penalty for a failure to file a tax return within 60 days of the due date to the lesser of $225 or 100 percent of the amount of tax required to be shown on the return.	$ 296 M
4. Increase Penalty for Failure to File Partnership Returns	Under the Mortgage Forgiveness Debt Relief Act of 2007, H.R. 3648, the penalty for the failure of a partnership to file a tax return for each taxable year was increased from $50 per partner (for each month that the failure continues, up to a maximum of five months) to $85 per partner and the period for calculating the months failure to file penalty for partnership returns was extended from five months to 12 months. Under the proposal, the penalty would be increased from $85 per partner to $100.	$ 196 M
5. Penalty to Failure to File S Corporation Returns	Under the Mortgage Forgiveness Debt Relief Act of 2007, H.R. 3648, a monthly penalty is imposed against S corporations for any failure to timely file an S corporation return or any failure to provide the information required to be shown on such a return. The penalty is $85 times the number of shareholders in the S corporations during any part of the taxable years for which the return was required, for each month during which the failure continues, up to a maximum of 12 months. Under the proposal, the penalty would be increased from $85 to $100.	$ 144 M
TOTAL REVENUE OFFSETS		**$1.445 B**
NET TOTAL		**$ 18 M**