

PART A: TEXT OF THE AMENDMENT IN THE NATURE OF A SUBSTITUTE TO
H.R. 4872 TO BE CONSIDERED AS ADOPTED

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 4872, AS REPORTED**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

2 (a) SHORT TITLE.—This Act may be cited as the
3 “Health Care and Education Affordability Reconciliation
4 Act of 2010”.

5 (b) TABLE OF CONTENTS.—The table of contents of
6 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—COVERAGE, MEDICARE, MEDICAID, AND REVENUES

Subtitle A—Coverage

Sec. 1001. Affordability.
Sec. 1002. Individual responsibility.
Sec. 1003. Employer responsibility.
Sec. 1004. Income definitions.
Sec. 1005. Implementation funding.

Subtitle B—Medicare

Sec. 1101. Closing the medicare prescription drug “donut hole”.
Sec. 1102. Medicare Advantage payments.
Sec. 1103. Savings from limits on MA plan administrative costs.
Sec. 1104. Disproportionate share hospital (DSH) payments.
Sec. 1105. Market basket updates.
Sec. 1106. Physician ownership-referral.
Sec. 1107. Payment for imaging services.

Subtitle C—Medicaid

Sec. 1201. Federal funding for States.
Sec. 1202. Payments to primary care physicians.
Sec. 1203. Disproportionate share hospital payments.
Sec. 1204. Funding for the territories.

- Sec. 1205. Delay in Community First Choice option.
- Sec. 1206. Drug rebates for new formulations of existing drugs.

Subtitle D—Reducing Fraud, Waste, and Abuse

- Sec. 1301. Community mental health centers.
- Sec. 1302. Medicare prepayment medical review limitations .
- Sec. 1303. CMS-IRS data match to identify fraudulent providers.
- Sec. 1304. Funding to fight fraud, waste, and abuse.
- Sec. 1305. 90-day period of enhanced oversight for initial claims of DME suppliers.

Subtitle E—Provisions Relating to Revenue

- Sec. 1401. High-cost plan excise tax.
- Sec. 1402. Medicare tax.
- Sec. 1403. Delay of limitation on health flexible spending arrangements under cafeteria plans.
- Sec. 1404. Brand name pharmaceuticals.
- Sec. 1405. Excise tax on medical device manufacturers.
- Sec. 1406. Health insurance providers.
- Sec. 1407. Delay of elimination of deduction for expenses allocable to medicare part D subsidy.
- Sec. 1408. Elimination of unintended application of cellulosic biofuel producer credit.
- Sec. 1409. Codification of economic substance doctrine and penalties.
- Sec. 1410. Time for payment of corporate estimated taxes.
- Sec. 1411. No impact on Social Security trust funds.

Subtitle F—Other Provisions

- Sec. 1501. Community college and career training grant program.

TITLE II—EDUCATION AND HEALTH

Subtitle A—Education

- Sec. 2001. Short title; references.

PART I—INVESTING IN STUDENTS AND FAMILIES

- Sec. 2101. Federal Pell Grants.
- Sec. 2102. Student financial assistance.
- Sec. 2103. College access challenge grant program.
- Sec. 2104. Investment in historically black colleges and universities and minority-serving institutions.

PART II—STUDENT LOAN REFORM

- Sec. 2201. Termination of Federal Family Education Loan appropriations.
- Sec. 2202. Termination of Federal loan insurance program.
- Sec. 2203. Termination of applicable interest rates.
- Sec. 2204. Termination of Federal payments to reduce student interest costs.
- Sec. 2205. Termination of FFEL PLUS Loans.
- Sec. 2206. Federal Consolidation Loans.
- Sec. 2207. Termination of Unsubsidized Stafford Loans for middle-income borrowers.
- Sec. 2208. Termination of special allowances.

Sec. 2209. Origination of Direct Loans at institutions outside the United States.

Sec. 2210. Conforming amendments.

Sec. 2211. Terms and conditions of loans.

Sec. 2212. Contracts; mandatory funds.

Sec. 2213. Agreements with State-owned banks.

Sec. 2214. Income-based repayment.

Subtitle B—Health

Sec. 2301. Insurance reforms.

Sec. 2302. Drugs purchased by covered entities.

Sec. 2303. Community health centers.

1 **TITLE I—COVERAGE, MEDICARE,**

2 **MEDICAID, AND REVENUES**

3 **Subtitle A—Coverage**

4 **SEC. 1001. AFFORDABILITY.**

5 (a) PREMIUM TAX CREDITS.—Section 36B of the In-
6 ternal Revenue Code of 1986, as added by section 1401
7 of the Patient Protection and Affordable Care Act and
8 amended by section 10105 of such Act, is amended—

9 (1) in subsection (b)(3)(A)—

10 (A) in clause (i), by striking “with respect
11 to any taxpayer” and all that follows up to the
12 end period and inserting “for any taxable year
13 shall be the percentage such that the applicable
14 percentage for any taxpayer whose household
15 income is within an income tier specified in the
16 following table shall increase, on a sliding scale
17 in a linear manner, from the initial premium
18 percentage to the final premium percentage
19 specified in such table for such income tier:

“In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is—	The final premium percentage is—
Up to 133%	2.0%	2.0%
133% up to 150%	3.0%	4.0%
150% up to 200%	4.0%	6.3%
200% up to 250%	6.3%	8.05%
250% up to 300%	8.05%	9.5%
300% up to 400%	9.5%	9.5%”; and

1 (B) by striking clauses (ii) and (iii), and
 2 inserting the following:

3 “(ii) INDEXING.—

4 “(I) IN GENERAL.—Subject to
 5 subclause (II), in the case of taxable
 6 years beginning in any calendar year
 7 after 2014, the initial and final appli-
 8 cable percentages under clause (i) (as
 9 in effect for the preceding calendar
 10 year after application of this clause)
 11 shall be adjusted to reflect the excess
 12 of the rate of premium growth for the
 13 preceding calendar year over the rate
 14 of income growth for the preceding
 15 calendar year.

16 “(II) ADDITIONAL ADJUST-
 17 MENT.—Except as provided in sub-
 18 clause (III), in the case of any cal-
 19 endar year after 2018, the percent-
 20 ages described in subclause (I) shall,

1 in addition to the adjustment under
2 subclause (I), be adjusted to reflect
3 the excess (if any) of the rate of pre-
4 mium growth estimated under sub-
5 clause (I) for the preceding calendar
6 year over the rate of growth in the
7 consumer price index for the pre-
8 ceding calendar year.

9 “(III) FAILSAFE.—Subclause (II)
10 shall apply for any calendar year only
11 if the aggregate amount of premium
12 tax credits under this section and
13 cost-sharing reductions under section
14 1402 of the Patient Protection and
15 Affordable Care Act for the preceding
16 calendar year exceeds an amount
17 equal to 0.504 percent of the gross
18 domestic product for the preceding
19 calendar year.”; and

20 (2) in subsection (c)(2)(C)—

21 (A) by striking “9.8 percent” in clauses
22 (i)(II) and (iv) and inserting “9.5 percent”, and

23 (B) by striking “(b)(3)(A)(iii)” in clause
24 (iv) and inserting “(b)(3)(A)(ii)”.

1 (b) COST SHARING.—Section 1402(c) of the Patient
2 Protection and Affordable Care Act is amended—

3 (1) in paragraph (1)(B)(i)—

4 (A) in subclause (I), by striking “90” and
5 inserting “94”;

6 (B) in subclause (II)—

7 (i) by striking “80” and inserting
8 “87”; and

9 (ii) by striking “and”; and

10 (C) by striking subclause (III) and insert-
11 ing the following:

12 “(III) 73 percent in the case of
13 an eligible insured whose household
14 income is more than 200 percent but
15 not more than 250 percent of the pov-
16 erty line for a family of the size in-
17 volved; and

18 “(IV) 70 percent in the case of
19 an eligible insured whose household
20 income is more than 250 percent but
21 not more than 400 percent of the pov-
22 erty line for a family of the size in-
23 volved.”; and

24 (2) in paragraph (2)—

25 (A) in subparagraph (A)—

1 (i) by striking “90” and inserting
2 “94”; and

3 (ii) by striking “and”;

4 (B) in subparagraph (B)—

5 (i) by striking “80” and inserting
6 “87”; and

7 (ii) by striking the period and insert-
8 ing “; and”; and

9 (C) by inserting after subparagraph (B)
10 the following new subparagraph:

11 “(C) in the case of an eligible insured
12 whose household income is more than 200 per-
13 cent but not more than 250 percent of the pov-
14 erty line for a family of the size involved, in-
15 crease the plan’s share of the total allowed
16 costs of benefits provided under the plan to 73
17 percent of such costs.”.

18 **SEC. 1002. INDIVIDUAL RESPONSIBILITY.**

19 (a) AMOUNTS.—Section 5000A(c) of the Internal
20 Revenue Code of 1986, as added by section 1501(b) of
21 the Patient Protection and Affordable Care Act and
22 amended by section 10106 of such Act, is amended—

23 (1) in paragraph (2)(B)—

24 (A) in the matter preceding clause (i),

25 by—

1 (i) inserting “the excess of” before
2 “the taxpayer’s household income”; and

3 (ii) inserting “for the taxable year
4 over the amount of gross income specified
5 in section 6012(a)(1) with respect to the
6 taxpayer” before “for the taxable year”;

7 (B) in clause (i), by striking “0.5” and in-
8 serting “1.0”;

9 (C) in clause (ii), by striking “1.0” and in-
10 serting “2.0”; and

11 (D) in clause (iii), by striking “2.0” and
12 inserting “2.5”; and

13 (2) in paragraph (3)—

14 (A) in subparagraph (A), by striking
15 “\$750” and inserting “\$695”;

16 (B) in subparagraph (B), by striking
17 “\$495” and inserting “\$325”; and

18 (C) in subparagraph (D)—

19 (i) in the matter preceding clause (i),
20 by striking “\$750” and inserting “\$695”;
21 and

22 (ii) in clause (i), by striking “\$750”
23 and inserting “\$695”.

24 (b) THRESHOLD.—Section 5000A of such Code, as
25 so added and amended, is amended—

1 (1) by striking subsection (c)(4)(D); and

2 (2) in subsection (e)(2)—

3 (A) by striking “UNDER 100 PERCENT OF
4 POVERTY LINE” and inserting “BELOW FILING
5 THRESHOLD”; and

6 (B) by striking all that follows “less than”
7 and inserting “the amount of gross income
8 specified in section 6012(a)(1) with respect to
9 the taxpayer.”.

10 **SEC. 1003. EMPLOYER RESPONSIBILITY.**

11 (a) PAYMENT CALCULATION.—Subparagraph (D) of
12 subsection (d)(2) of section 4980H of the Internal Rev-
13 enue Code of 1986, as added by section 1513 of the Pa-
14 tient Protection and Affordable Care Act and amended by
15 section 10106 of such Act, is amended to read as follows:

16 “(D) APPLICATION OF EMPLOYER SIZE TO
17 ASSESSABLE PENALTIES.—

18 “(i) IN GENERAL.—The number of in-
19 dividuals employed by an applicable large
20 employer as full-time employees during any
21 month shall be reduced by 30 solely for
22 purposes of calculating—

23 “(I) the assessable payment
24 under subsection (a), or

1 “(II) the overall limitation under
2 subsection (b)(2).

3 “(ii) AGGREGATION.—In the case of
4 persons treated as 1 employer under sub-
5 paragraph (C)(i), only 1 reduction under
6 subclause (I) or (II) shall be allowed with
7 respect to such persons and such reduction
8 shall be allocated among such persons rat-
9 ably on the basis of the number of full-
10 time employees employed by each such per-
11 son.”.

12 (b) APPLICABLE PAYMENT AMOUNT.—Section
13 4980H of such Code, as so added and amended, is amend-
14 ed—

15 (1) in the flush text following subsection
16 (c)(1)(B), by striking “400 percent of the applicable
17 payment amount” and inserting “an amount equal
18 to $\frac{1}{12}$ of \$3,000”;

19 (2) in subsection (d)(1), by striking “\$750”
20 and inserting “\$2,000”; and

21 (3) in subsection (d)(5)(A), in the matter pre-
22 ceding clause (i), by striking “subsection (b)(2) and
23 (d)(1)” and inserting “subsection (b) and paragraph
24 (1)”.

1 (c) COUNTING PART-TIME WORKERS IN SETTING
2 THE THRESHOLD FOR EMPLOYER RESPONSIBILITY.—
3 Section 4980H(d)(2) of such Code, as so added and
4 amended and as amended by subsection (a), is amended
5 by adding at the end the following new subparagraph:

6 “(E) FULL-TIME EQUIVALENTS TREATED
7 AS FULL-TIME EMPLOYEES.—Solely for pur-
8 poses of determining whether an employer is an
9 applicable large employer under this paragraph,
10 an employer shall, in addition to the number of
11 full-time employees for any month otherwise de-
12 termined, include for such month a number of
13 full-time employees determined by dividing the
14 aggregate number of hours of service of employ-
15 ees who are not full-time employees for the
16 month by 120.”.

17 (d) ELIMINATING WAITING PERIOD ASSESSMENT.—
18 Section 4980H of such Code, as so added and amended
19 and as amended by the preceding subsections, is amended
20 by striking subsection (b) and redesignating subsections
21 (c), (d), and (e) as subsections (b), (c), and (d), respec-
22 tively.

23 **SEC. 1004. INCOME DEFINITIONS.**

24 (a) MODIFIED ADJUSTED GROSS INCOME.—

1 (1) IN GENERAL.—The following provisions of
2 the Internal Revenue Code of 1986 are each amend-
3 ed by striking “modified gross” each place it ap-
4 pears and inserting “modified adjusted gross”:

5 (A) Clauses (i) and (ii) of section
6 36B(d)(2)(A), as added by section 1401 of the
7 Patient Protection and Affordable Care Act.

8 (B) Section 6103(l)(21)(A)(iv), as added
9 by section 1414 of such Act.

10 (C) Clauses (i) and (ii) of section
11 5000A(c)(4), as added by section 1501(b) of
12 such Act.

13 (2) DEFINITION.—

14 (A) Section 36B(d)(2)(B) of such Code, as
15 so added, is amended to read as follows:

16 “(B) MODIFIED ADJUSTED GROSS IN-
17 COME.—The term ‘modified adjusted gross in-
18 come’ means adjusted gross income increased
19 by—

20 “(i) any amount excluded from gross
21 income under section 911, and

22 “(ii) any amount of interest received
23 or accrued by the taxpayer during the tax-
24 able year which is exempt from tax.”.

1 (B) Section 5000A(c)(4)(C) of such Code,
2 as so added, is amended to read as follows:

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

7 “(i) any amount excluded from gross
8 income under section 911, and

9 “(ii) any amount of interest received
10 or accrued by the taxpayer during the tax-
11 able year which is exempt from tax.”.

12 (b) MODIFIED ADJUSTED GROSS INCOME DEFINI-
13 TION.—

14 (1) MEDICAID.—Section 1902 of the Social Se-
15 curity Act (42 U.S.C. 1396a) is amended by striking
16 “modified gross income” each place it appears in the
17 text and headings of the following provisions and in-
18 serting “modified adjusted gross income”:

19 (A) Paragraph (14) of subsection (e), as
20 added by section 2002(a) of the Patient Protec-
21 tion and Affordable Care Act.

22 (B) Subsection (gg)(4)(A), as added by
23 section 2001(b) of such Act.

24 (2) CHIP.—

1 (A) STATE PLAN REQUIREMENTS.—Section
2 2102(b)(1)(B)(v) of the Social Security Act (42
3 U.S.C. 1397bb(b)(1)(B)(v)), as added by sec-
4 tion 2101(d)(1) of the Patient Protection and
5 Affordable Care Act, is amended by striking
6 “modified gross income” and inserting “modi-
7 fied adjusted gross income”.

8 (B) PLAN ADMINISTRATION.—Section
9 2107(e)(1)(E) of the Social Security Act (42
10 U.S.C. 1397gg(e)(1)(E)), as added by section
11 2101(d)(2) of the Patient Protection and Af-
12 fordable Care Act, is amended by striking
13 “modified gross income” and inserting “modi-
14 fied adjusted gross income”.

15 (c) NO EXCESS PAYMENTS.—Section 36B(f) of the
16 Internal Revenue Code of 1986, as added by section
17 1401(a) of the Patient Protection and Affordable Care
18 Act, is amended by adding at the end the following new
19 paragraph:

20 “(3) INFORMATION REQUIREMENT.—Each Ex-
21 change (and any other person specified by the Sec-
22 retary) shall provide the following information to the
23 Secretary and to the taxpayer with respect to any
24 health plan provided through the Exchange:

1 “(A) The level of coverage described in sec-
2 tion 1302(d) of the Patient Protection and Af-
3 fordable Care Act and the period such coverage
4 was in effect.

5 “(B) The total premium for the coverage
6 without regard to the credit under this section
7 or cost-sharing reductions under section 1402
8 of such Act.

9 “(C) The aggregate amount of any ad-
10 vance payment of such credit or reductions
11 under section 1412 of such Act.

12 “(D) The name, address, and TIN of the
13 primary insured and the name and TIN of each
14 other individual obtaining coverage under the
15 policy.

16 “(E) Any information provided to the Ex-
17 change, including any change of circumstances,
18 necessary to determine eligibility for, and the
19 amount of, such credit.

20 “(F) Any other similar information nec-
21 essary to carry out this subsection and deter-
22 mine whether a taxpayer has received excess
23 advance payments.”.

24 (d) ADULT DEPENDENTS.—

1 (1) EXCLUSION OF AMOUNTS EXPENDED FOR
2 MEDICAL CARE.—The first sentence of section
3 105(b) of the Internal Revenue Code of 1986 (relat-
4 ing to amounts expended for medical care) is amend-
5 ed—

6 (A) by striking “and his dependents” and
7 inserting “his dependents”; and

8 (B) by inserting before the period the fol-
9 lowing: “, and any child (as defined in section
10 152(f)(1)) of the taxpayer who as of the end of
11 the taxable year has not attained age 27”.

12 (2) SELF-EMPLOYED HEALTH INSURANCE DE-
13 DUCTION.—Section 162(l)(1) of such Code is
14 amended to read as follows:

15 “(1) ALLOWANCE OF DEDUCTION.—In the case
16 of a taxpayer who is an employee within the mean-
17 ing of section 401(c)(1), there shall be allowed as a
18 deduction under this section an amount equal to the
19 amount paid during the taxable year for insurance
20 which constitutes medical care for—

21 “(A) the taxpayer,

22 “(B) the taxpayer’s spouse,

23 “(C) the taxpayer’s dependents, and

1 “(D) any child (as defined in section
2 152(f)(1)) of the taxpayer who as of the end of
3 the taxable year has not attained age 27.”.

4 (3) CONFORMING AMENDMENTS.—

5 (A) INTERNAL REVENUE CODE.—Section
6 162(l)(2)(B) of such Code is amended by in-
7 serting “, or any dependent, or individual de-
8 scribed in subparagraph (D) of paragraph (1)
9 with respect to,” after “spouse of”.

10 (B) PUBLIC HEALTH SERVICE ACT.—Sec-
11 tion 2714 of the Public Health Service Act, as
12 added by section 1001(5) of the Patient Protec-
13 tion and Affordable Care Act, is amended by
14 striking subsection (c).

15 (4) SICK AND ACCIDENT BENEFITS PROVIDED
16 TO MEMBERS OF A VOLUNTARY EMPLOYEES’ BENE-
17 FICIARY ASSOCIATION AND THEIR DEPENDENTS.—
18 Section 501(c)(9) of such Code is amended by add-
19 ing at the end the following new sentence: “For pur-
20 poses of providing for the payment of sick and acci-
21 dent benefits to members of such an association and
22 their dependents, the term ‘dependent’ shall include
23 any individual who is a child (as defined in section
24 152(f)(1)) of a member who as of the end of the cal-
25 endar year has not attained age 27.”.

1 (5) MEDICAL AND OTHER BENEFITS FOR RE-
2 TIRE D EMPLOYEES.—Section 401(h) of such Code is
3 amended by adding at the end the following: “For
4 purposes of this subsection, the term ‘dependent’
5 shall include any individual who is a child (as de-
6 fined in section 152(f)(1)) of a retired employee who
7 as of the end of the calendar year has not attained
8 age 27.”.

9 (e) FIVE PERCENT INCOME DISREGARD FOR CER-
10 TAIN INDIVIDUALS.—Section 1902(e)(14) of the Social
11 Security Act (42 U.S.C. 1396a(e)(14)), as amended by
12 subsection (b)(1), is further amended—

13 (1) in subparagraph (B), by striking “No type”
14 and inserting “Subject to subparagraph (I), no
15 type”; and

16 (2) by adding at the end the following new sub-
17 paragraph:

18 “(I) TREATMENT OF PORTION OF MODI-
19 FIED ADJUSTED GROSS INCOME.—For purposes
20 of determining the income eligibility of an indi-
21 vidual for medical assistance whose eligibility is
22 determined based on the application of modified
23 adjusted gross income under subparagraph (A),
24 the State shall—

1 “(i) determine the dollar equivalent of
2 the difference between the upper income
3 limit on eligibility for such an individual
4 (expressed as a percentage of the poverty
5 line) and such upper income limit in-
6 creased by 5 percentage points; and

7 “(ii) notwithstanding the requirement
8 in subparagraph (A) with respect to use of
9 modified adjusted gross income, utilize as
10 the applicable income of such individual, in
11 determining such income eligibility, an
12 amount equal to the modified adjusted
13 gross income applicable to such individual
14 reduced by such dollar equivalent
15 amount.”.

16 **SEC. 1005. IMPLEMENTATION FUNDING.**

17 (a) **IN GENERAL.**—There is hereby established a
18 Health Insurance Reform Implementation Fund (referred
19 to in this section as the “Fund”) within the Department
20 of Health and Human Services to carry out the Patient
21 Protection and Affordable Care Act and this Act (and the
22 amendments made by such Acts).

23 (b) **FUNDING.**—There is appropriated to the Fund,
24 out of any funds in the Treasury not otherwise appro-
25 priated, \$1,000,000,000 for Federal administrative ex-

1 penses to carry out such Act (and the amendments made
2 by such Acts).

3 **Subtitle B—Medicare**

4 **SEC. 1101. CLOSING THE MEDICARE PRESCRIPTION DRUG**
5 **“DONUT HOLE”.**

6 (a) COVERAGE GAP REBATE FOR 2010.—

7 (1) IN GENERAL.—Section 1860D–42 of the
8 Social Security Act (42 U.S.C. 1395w–152) is
9 amended by adding at the end the following new
10 subsection:

11 “(c) COVERAGE GAP REBATE FOR 2010.—

12 “(1) IN GENERAL.—In the case of an individual
13 described in subparagraphs (A) through (D) of sec-
14 tion 1860D–14A(g)(1) who as of the last day of a
15 calendar quarter in 2010 has incurred costs for cov-
16 ered part D drugs so that the individual has exceed-
17 ed the initial coverage limit under section 1860D–
18 2(b)(3) for 2010, the Secretary shall provide for
19 payment from the Medicare Prescription Drug Ac-
20 count of \$250 to the individual by not later than the
21 15th day of the third month following the end of
22 such quarter.

23 “(2) LIMITATION.—The Secretary shall provide
24 only 1 payment under this subsection with respect to
25 any individual.”.

1 (2) REPEAL OF PROVISION.—Section 3315 of
2 the Patient Protection and Affordable Care Act (in-
3 cluding the amendments made by such section) is re-
4 pealed, and any provision of law amended or re-
5 pealed by such sections is hereby restored or revived
6 as if such section had not been enacted into law.

7 (b) CLOSING THE DONUT HOLE.—Part D of title
8 XVIII of the Social Security Act (42 U.S.C. 1395w–101
9 et seq.), as amended by section 3301 of the Patient Pro-
10 tection and Affordable Care Act, is further amended—

11 (1) in section 1860D–43—

12 (A) in subsection (b), by striking “July 1,
13 2010” and inserting “January 1, 2011”; and

14 (B) in subsection (c)(2), by striking “July
15 1, 2010, and ending on December 31, 2010,”
16 and inserting “January 1, 2011, and December
17 31, 2011,”;

18 (2) in section 1860D–14A—

19 (A) in subsection (a)—

20 (i) by striking “July 1, 2010” and in-
21 serting “January 1, 2011”; and

22 (ii) by striking “April 1, 2010” and
23 inserting “180 days after the date of the
24 enactment of this section”;

25 (B) in subsection (b)(1)(C)—

1 (i) in the heading, by striking “2010
2 AND”;

3 (ii) by striking “July 1, 2010” and in-
4 sserting “January 1, 2011”; and

5 (iii) by striking “May 1, 2010” and
6 inserting “not later than 30 days after the
7 date of the establishment of a model agree-
8 ment under subsection (a)”;

9 (C) in subsection (c)—

10 (i) in paragraph (1)(A)(iii), by strik-
11 ing “July 1, 2010, and ending on Decem-
12 ber 31, 2011” and inserting “January 1,
13 2011, and ending on December 31, 2011”;
14 and

15 (ii) in paragraph (2), by striking
16 “2010” and inserting “2011”;

17 (D) in subsection (d)(2)(B), by striking
18 “July 1, 2010, and ending on December 31,
19 2010” and inserting “January 1, 2011, and
20 ending on December 31, 2011”; and

21 (E) in subsection (g)(1)—

22 (i) in the matter before subparagraph
23 (A), by striking “an applicable drug” and
24 inserting “a covered part D drug”;

1 (ii) by adding “and” at the end of
2 subparagraph (C);

3 (iii) by striking subparagraph (D);
4 and

5 (iv) by redesignating subparagraph
6 (E) as subparagraph (D); and

7 (3) in section 1860D–2(b) —

8 (A) in paragraph (2)(A), by striking “The
9 coverage” and inserting “Subject to subpara-
10 graphs (C) and (D), the coverage”;

11 (B) in paragraph (2)(B), by striking “sub-
12 paragraph (A)(ii)” and inserting “subpara-
13 graphs (A)(ii), (C), and (D)”;

14 (C) by adding at the end of paragraph (2)
15 the following new subparagraphs:

16 “(C) COVERAGE FOR GENERIC DRUGS IN
17 COVERAGE GAP.—

18 “(i) IN GENERAL.—Except as pro-
19 vided in paragraph (4), the coverage for an
20 applicable beneficiary (as defined in section
21 1860D–14A(g)(1)) has coinsurance (for
22 costs above the initial coverage limit under
23 paragraph (3) and below the out-of-pocket
24 threshold) for covered part D drugs that

1 are not applicable drugs under section
2 1860D-14A(g)(2) that is—

3 “(I) equal to the generic-gap co-
4 insurance percentage (specified in
5 clause (ii)) for the year, or

6 “(II) actuarially equivalent
7 (using processes and methods estab-
8 lished under section 1860D-11(c)) to
9 an average expected payment of such
10 percentage of such costs for covered
11 part D drugs that are not applicable
12 drugs under section 1860D-
13 14A(g)(2).

14 “(ii) GENERIC-GAP COINSURANCE
15 PERCENTAGE.—The generic-gap coinsur-
16 ance percentage specified in this clause
17 for—

18 “(I) 2011 is 93 percent;

19 “(II) 2012 and each succeeding
20 year before 2020 is the generic-gap
21 coinsurance percentage under this
22 clause for the previous year decreased
23 by 7 percentage points; and

24 “(III) 2020 and each subsequent
25 year is 25 percent.

1 “(D) COVERAGE FOR APPLICABLE DRUGS
2 IN COVERAGE GAP.—

3 “(i) IN GENERAL.—Except as pro-
4 vided in paragraph (4), the coverage for an
5 applicable beneficiary (as defined in section
6 1860D–14A(g)(1)) has coinsurance (for
7 costs above the initial coverage limit under
8 paragraph (3) and below the out-of-pocket
9 threshold) for the negotiated price (as de-
10 fined in section 1860D–14A(g)(6)) of cov-
11 ered part D drugs that are applicable
12 drugs under section 1860D–14A(g)(2) that
13 is—

14 “(I) equal to the difference be-
15 tween the applicable gap percentage
16 (specified in clause (ii) for the year)
17 and the discount percentage specified
18 in section 1860D–14A(g)(4)(A) for
19 such applicable drugs, or

20 “(II) actuarially equivalent
21 (using processes and methods estab-
22 lished under section 1860D–11(c)) to
23 an average expected payment of such
24 percentage of such costs, for covered
25 part D drugs that are applicable

1 drugs under section 1860D-
2 14A(g)(2).

3 “(ii) APPLICABLE GAP PERCENT-
4 AGE.—The applicable gap percentage spec-
5 ified in this clause for—

6 “(I) 2013 and 2014 is 97.5 per-
7 cent;

8 “(II) 2015 and 2016 is 95 per-
9 cent;

10 “(III) 2017 is 90 percent;

11 “(IV) 2018 is 85 percent;

12 “(V) 2019 is 80 percent; and

13 “(VI) 2020 and each subsequent
14 year is 75 percent.”;

15 (D) in paragraph (3)(A), as restored under
16 subsection (a)(2), by striking “paragraph (4)”
17 and inserting “paragraphs (2)(C), (2)(D), and
18 (4)”;

19 (E) in paragraph (4)(E), by inserting be-
20 fore the period at the end the following: “, ex-
21 cept that incurred costs shall not include the
22 portion of the negotiated price that represents
23 the reduction in coinsurance resulting from the
24 application of paragraph (2)(D)”;

1 (4) in section 1860D–22(a)(2)(A), by inserting
2 before the period at the end the following: “, not
3 taking into account the value of any discount or cov-
4 erage provided during the gap in prescription drug
5 coverage that occurs between the initial coverage
6 limit under section 1860D–2(b)(3) during the year
7 and the out-of-pocket threshold specified in section
8 1860D–2(b)(4)(B)”.

9 (c) CONFORMING AMENDMENT TO AMP UNDER
10 MEDICAID.—Section 1927(k)(1)(B)(i) of the Social Secu-
11 rity Act (42 U.S.C. 1396r–8(k)(1)(B)(i)), as amended by
12 section 2503(a)(2)(B) of the Patient Protection and Af-
13 fordable Care Act, is amended—

14 (1) by striking “and” at the end of subclause
15 (III);

16 (2) by striking the period at the end of sub-
17 clause (IV); and

18 (3) by adding at the end the following new sub-
19 clause:

20 “(V) discounts provided by man-
21 ufacturers under section 1860D–
22 14A.”.

23 **SEC. 1102. MEDICARE ADVANTAGE PAYMENTS.**

24 (a) REPEAL.—Effective as if included in the enact-
25 ment of the Patient Protection and Affordable Care Act,

1 sections 3201 and 3203 of such Act (and the amendments
2 made by such sections) are repealed.

3 (b) PHASE-IN OF MODIFIED BENCHMARKS.—Section
4 1853 of the Social Security Act (42 U.S.C. 1395w–23)
5 is amended—

6 (1) in subsection (j)(1)(A), by striking “(or, be-
7 ginning with 2007, $\frac{1}{12}$ of the applicable amount de-
8 termined under subsection (k)(1)) for the area for
9 the year” and inserting “ for the area for the year
10 (or, for 2007, 2008, 2009, and 2010, $\frac{1}{12}$ of the ap-
11 plicable amount determined under subsection (k)(1)
12 for the area for the year; for 2011, $\frac{1}{12}$ of the appli-
13 cable amount determined under subsection (k)(1) for
14 the area for 2010; and, beginning with 2012, $\frac{1}{12}$ of
15 the blended benchmark amount determined under
16 subsection (n)(1) for the area for the year)”; and

17 (2) by adding at the end the following new sub-
18 section:

19 “(n) DETERMINATION OF BLENDED BENCHMARK
20 AMOUNT.—

21 “(1) IN GENERAL.—For purposes of subsection
22 (j), subject to paragraphs (3), (4), and (5), the term
23 ‘blended benchmark amount’ means for an area—

24 “(A) for 2012 the sum of—

1 “(i) $\frac{1}{2}$ of the applicable amount for
2 the area and year; and

3 “(ii) $\frac{1}{2}$ of the amount specified in
4 paragraph (2)(A) for the area and year;
5 and

6 “(B) for a subsequent year the amount
7 specified in paragraph (2)(A) for the area and
8 year.

9 “(2) SPECIFIED AMOUNT.—

10 “(A) IN GENERAL.—The amount specified
11 in this subparagraph for an area and year is
12 the product of—

13 “(i) the base payment amount speci-
14 fied in subparagraph (E) for the area and
15 year adjusted to take into account the
16 phase-out in the indirect costs of medical
17 education from capitation rates described
18 in subsection (k)(4); and

19 “(ii) the applicable percentage for the
20 area for the year specified under subpara-
21 graph (B).

22 “(B) APPLICABLE PERCENTAGE.—Subject
23 to subparagraph (D), the applicable percentage
24 specified in this subparagraph for an area for
25 a year in the case of an area that is ranked—

1 “(i) in the highest quartile under sub-
2 paragraph (C) for the previous year is 95
3 percent;

4 “(ii) in the second highest quartile
5 under such subparagraph for the previous
6 year is 100 percent;

7 “(iii) in the third highest quartile
8 under such subparagraph for the previous
9 year is 107.5 percent; or

10 “(iv) in the lowest quartile under such
11 subparagraph for the previous year is 115
12 percent.

13 “(C) PERIODIC RANKING.—For purposes
14 of this paragraph in the case of an area lo-
15 cated—

16 “(i) in 1 of the 50 States or the Dis-
17 trict of Columbia, the Secretary shall rank
18 such area in each year specified under sub-
19 section (c)(1)(D)(ii) based upon the level
20 of the amount specified in subparagraph
21 (A)(i) for such areas; or

22 “(ii) in a territory, the Secretary shall
23 rank such areas in each such year based
24 upon the level of the amount specified in
25 subparagraph (A)(i) for such area relative

1 to quartile rankings computed under clause
2 (i).

3 “(D) 1-YEAR TRANSITION FOR CHANGES IN
4 APPLICABLE PERCENTAGE.—If, for a year after
5 2012, there is a change in the quartile in which
6 an area is ranked compared to the previous
7 year, the applicable percentage for the area in
8 the year shall be the average of—

9 “(i) the applicable percentage for the
10 area for the previous year; and

11 “(ii) the applicable percentage that
12 would otherwise apply for the area for the
13 year.

14 “(E) BASE PAYMENT AMOUNT.—Subject
15 to subparagraph (F), the base payment amount
16 specified in this subparagraph—

17 “(i) for 2012 is the amount specified
18 in subsection (c)(1)(D) for the area for the
19 year; or

20 “(ii) for a subsequent year that—

21 “(I) is not specified under sub-
22 section (c)(1)(D)(ii), is the base
23 amount specified in this subparagraph
24 for the area for the previous year, in-
25 creased by the national per capita MA

1 growth percentage, described in sub-
2 section (c)(6) for that succeeding
3 year, but not taking into account any
4 adjustment under subparagraph (C)
5 of such subsection for a year before
6 2004; and

7 “(II) is specified under sub-
8 section (c)(1)(D)(ii), is the amount
9 specified in subsection (c)(1)(D) for
10 the area for the year.

11 “(F) APPLICATION OF INDIRECT MEDICAL
12 EDUCATION PHASE-OUT.—The base payment
13 amount specified in subparagraph (E) for a
14 year shall be adjusted in the same manner
15 under paragraph (4) of subsection (k) as the
16 applicable amount is adjusted under such sub-
17 section.

18 “(3) ALTERNATIVE PHASE-INS.—

19 “(A) 4-YEAR PHASE-IN FOR CERTAIN
20 AREAS.—If the difference between the applica-
21 ble amount (as defined in subsection (k)) for an
22 area for 2010 and the projected 2010 bench-
23 mark amount (as defined in subparagraph (C))
24 for the area is at least \$30 but less than \$50,

1 the blended benchmark amount for the area
2 is—

3 “(i) for 2012 the sum of—

4 “(I) $\frac{3}{4}$ of the applicable amount
5 for the area and year; and

6 “(II) $\frac{1}{4}$ of the amount specified
7 in paragraph (2)(A) for the area and
8 year;

9 “(ii) for 2013 the sum of—

10 “(I) $\frac{1}{2}$ of the applicable amount
11 for the area and year; and

12 “(II) $\frac{1}{2}$ of the amount specified
13 in paragraph (2)(A) for the area and
14 year;

15 “(iii) for 2014 the sum of—

16 “(I) $\frac{1}{4}$ of the applicable amount
17 for the area and year; and

18 “(II) $\frac{3}{4}$ of the amount specified
19 in paragraph (2)(A) for the area and
20 year; and

21 “(iv) for a subsequent year the
22 amount specified in paragraph (2)(A) for
23 the area and year.

24 “(B) 6-YEAR PHASE-IN FOR CERTAIN
25 AREAS.—If the difference between the applica-

1 ble amount (as defined in subsection (k)) for an
2 area for 2010 and the projected 2010 bench-
3 mark amount (as defined in subparagraph (C))
4 for the area is at least \$50, the blended bench-
5 mark amount for the area is—

6 “(i) for 2012 the sum of—

7 “(I) $\frac{5}{6}$ of the applicable amount
8 for the area and year; and

9 “(II) $\frac{1}{6}$ of the amount specified
10 in paragraph (2)(A) for the area and
11 year;

12 “(ii) for 2013 the sum of—

13 “(I) $\frac{2}{3}$ of the applicable amount
14 for the area and year; and

15 “(II) $\frac{1}{3}$ of the amount specified
16 in paragraph (2)(A) for the area and
17 year;

18 “(iii) for 2014 the sum of—

19 “(I) $\frac{1}{2}$ of the applicable amount
20 for the area and year; and

21 “(II) $\frac{1}{2}$ of the amount specified
22 in paragraph (2)(A) for the area and
23 year;

24 “(iv) for 2015 the sum of—

1 “(I) $\frac{1}{3}$ of the applicable amount
2 for the area and year; and

3 “(II) $\frac{2}{3}$ of the amount specified
4 in paragraph (2)(A) for the area and
5 year; and

6 “(v) for 2016 the sum of—

7 “(I) $\frac{1}{6}$ of the applicable amount
8 for the area and year; and

9 “(II) $\frac{5}{6}$ of the amount specified
10 in paragraph (2)(A) for the area and
11 year; and

12 “(vi) for a subsequent year the
13 amount specified in paragraph (2)(A) for
14 the area and year.

15 “(C) PROJECTED 2010 BENCHMARK
16 AMOUNT.—The projected 2010 benchmark
17 amount described in this subparagraph for an
18 area is equal to the sum of—

19 “(i) $\frac{1}{2}$ of the applicable amount (as
20 defined in subsection (k)) for the area for
21 2010; and

22 “(ii) $\frac{1}{2}$ of the amount specified in
23 paragraph (2)(A) for the area for 2010 but
24 determined as if there were substituted for

1 the applicable percentage specified in
2 clause (ii) of such paragraph the sum of—

3 “(I) the applicable percent that
4 would be specified under subpara-
5 graph (B) of paragraph (2) (deter-
6 mined without regard to subpara-
7 graph (D) of such paragraph) for the
8 area for 2010 if any reference in such
9 paragraph to ‘the previous year’ were
10 deemed a reference to 2010; and

11 “(II) the applicable percentage
12 increase that would apply to a quali-
13 fying plan in the area under sub-
14 section (o) as if any reference in such
15 subsection to 2012 were deemed a ref-
16 erence to 2010 and as if the deter-
17 mination of a qualifying county under
18 paragraph (3)(B) of such subsection
19 were made for 2010.

20 “(4) CAP ON BENCHMARK AMOUNT.—In no
21 case shall the blended benchmark amount for an
22 area for a year (determined taking into account sub-
23 section (o)) be greater than the applicable amount
24 that would (but for the application of this sub-

1 section) be determined under subsection (k)(1) for
2 the area for the year.

3 “(5) NON-APPLICATION TO PACE PLANS.—This
4 subsection shall not apply to payments to a PACE
5 program under section 1894.”.

6 (c) APPLICABLE PERCENTAGE QUALITY IN-
7 CREASES.—Section 1853 of such Act (42 U.S.C. 1395w-
8 23), as amended by subsection (b), is amended—

9 (1) in subsection (j), by inserting “subject to
10 subsection (o),” after “For purposes of this part,”;

11 (2) in subsection (n)(2)(B), as added by sub-
12 section (b), by inserting “, subject to subsection (o)”
13 after “as follows”; and

14 (3) by adding at the end the following new sub-
15 section:

16 “(o) APPLICABLE PERCENTAGE QUALITY IN-
17 CREASES.—

18 “(1) IN GENERAL.—Subject to the succeeding
19 paragraphs, in the case of a qualifying plan with re-
20 spect to a year beginning with 2012, the applicable
21 percentage under subsection (n)(2)(B) shall be in-
22 creased on a plan or contract level, as determined by
23 the Secretary—

24 “(A) for 2012, by 1.5 percentage points;

1 “(B) for 2013, by 3.0 percentage points;

2 and

3 “(C) for 2014 or a subsequent year, by 5.0
4 percentage points.

5 “(2) INCREASE FOR QUALIFYING PLANS IN
6 QUALIFYING COUNTIES.—The increase applied under
7 paragraph (1) for a qualifying plan located in a
8 qualifying county for a year shall be doubled.

9 “(3) QUALIFYING PLANS AND QUALIFYING
10 COUNTY DEFINED; APPLICATION OF INCREASES TO
11 LOW ENROLLMENT AND NEW PLANS.—For purposes
12 of this subsection:

13 “(A) QUALIFYING PLAN.—

14 “(i) IN GENERAL.—The term ‘quali-
15 fying plan’ means, for a year and subject
16 to paragraph (4), a plan that had a quality
17 rating under paragraph (4) of 4 stars or
18 higher based on the most recent data avail-
19 able for such year.

20 “(ii) APPLICATION OF INCREASES TO
21 LOW ENROLLMENT PLANS.—

22 “(I) 2012.—For 2012, the term
23 ‘qualifying plan’ includes an MA plan
24 that the Secretary determines is not
25 able to have a quality rating under

1 paragraph (4) because of low enroll-
2 ment.

3 “(II) 2013 AND SUBSEQUENT
4 YEARS.—For 2013 and subsequent
5 years, for purposes of determining
6 whether an MA plan with low enroll-
7 ment (as defined by the Secretary) is
8 included as a qualifying plan, the Sec-
9 retary shall establish a method to
10 apply to MA plans with low enroll-
11 ment (as defined by the Secretary)
12 the computation of quality rating and
13 the rating system under paragraph
14 (4).

15 “(iii) APPLICATION OF INCREASES TO
16 NEW PLANS.—

17 “(I) IN GENERAL.—A new MA
18 plan that meets criteria specified by
19 the Secretary shall be treated as a
20 qualifying plan, except that in apply-
21 ing paragraph (1), the applicable per-
22 centage under subsection (n)(2)(B)
23 shall be increased—

24 “(aa) for 2012, by 1.5 per-
25 centage points;

1 “(bb) for 2013, by 2.5 per-
2 centage points; and

3 “(cc) for 2014 or a subse-
4 quent year, by 3.5 percentage
5 points.

6 “(II) NEW MA PLAN DEFINED.—
7 The term ‘new MA plan’ means, with
8 respect to a year, a plan offered by an
9 organization or sponsor that has not
10 had a contract as a Medicare Advan-
11 tage organization in the preceding 3-
12 year period.

13 “(B) QUALIFYING COUNTY.—The term
14 ‘qualifying county’ means, for a year, a coun-
15 ty—

16 “(i) that has an MA capitation rate
17 that, in 2004, was based on the amount
18 specified in subsection (c)(1)(B) for a Met-
19 ropolitan Statistical Area with a population
20 of more than 250,000;

21 “(ii) for which, as of December 2009,
22 of the Medicare Advantage eligible individ-
23 uals residing in the county at least 25 per-
24 cent of such individuals were enrolled in
25 Medicare Advantage plans; and

1 “(iii) that has per capita fee-for-serv-
2 ice spending that is lower than the na-
3 tional monthly per capita cost for expendi-
4 tures for individuals enrolled under the
5 original medicare fee-for-service program
6 for the year.

7 “(4) QUALITY DETERMINATIONS FOR APPLICA-
8 TION OF INCREASE.—

9 “(A) QUALITY DETERMINATION.—The
10 quality rating for a plan shall be determined ac-
11 cording to a 5-star rating system (based on the
12 data collected under section 1852(e)).

13 “(B) PLANS THAT FAILED TO REPORT.—
14 An MA plan which does not report data that
15 enables the Secretary to rate the plan for pur-
16 poses of this paragraph shall be counted as hav-
17 ing a rating of fewer than 3.5 stars.

18 “(5) EXCEPTION FOR PACE PLANS.—This sub-
19 section shall not apply to payments to a PACE pro-
20 gram under section 1894.”.

21 (4) DETERMINATION OF MEDICARE PART D
22 LOW-INCOME BENCHMARK PREMIUM.—Section
23 1860D-14(b)(2)(B)(iii) of the Social Security Act
24 (42 U.S.C. 1395w-114(b)(2)(B)(iii)) as amended by
25 section 3302 of the Patient Protection and Afford-

1 able Care Act, is amended by striking “, determined
2 without regard to any reduction in such premium as
3 a result of any beneficiary rebate under section
4 1854(b)(1)(C) or bonus payment under section
5 1853(n)” and inserting the following: “and deter-
6 mined before the application of the monthly rebate
7 computed under section 1854(b)(1)(C)(i) for that
8 plan and year involved and, in the case of a quali-
9 fying plan, before the application of the increase
10 under section 1853(o) for that plan and year in-
11 volved”.

12 (d) **BENEFICIARY REBATES.**—Section 1854(b)(1)(C)
13 of such Act (42 U.S.C. 1395w-24(b)(1)(C)), as amended
14 by section 3202(b) of the Patient Protection and Afford-
15 able Care Act, is further amended—

16 (1) in clause (i), by inserting “(or the applica-
17 ble rebate percentage specified in clause (iii) in the
18 case of plan years beginning on or after January 1,
19 2012)” after “75 percent”; and

20 (2) by striking clause (iii), by redesignating
21 clauses (iv) and (v) as clauses (vii) and (viii), respec-
22 tively, and by inserting after clause (ii) the following
23 new clauses:

24 “(iii) **APPLICABLE REBATE PERCENT-**
25 **AGE.**—The applicable rebate percentage

1 specified in this clause for a plan for a
2 year, based on the system under section
3 1853(o)(4)(A), is the sum of—

4 “(I) the product of the old phase-
5 in proportion for the year under
6 clause (iv) and 75 percent; and

7 “(II) the product of the new
8 phase-in proportion for the year under
9 clause (iv) and the final applicable re-
10 bate percentage under clause (v).

11 “(iv) OLD AND NEW PHASE-IN PRO-
12 PORTIONS.—For purposes of clause (iv)—

13 “(I) for 2012, the old phase-in
14 proportion is $\frac{2}{3}$ and the new phase-in
15 proportion is $\frac{1}{3}$;

16 “(II) for 2013, the old phase-in
17 proportion is $\frac{1}{3}$ and the new phase-in
18 proportion is $\frac{2}{3}$; and

19 “(III) for 2014 and any subse-
20 quent year, the old phase-in propor-
21 tion is 0 and the new phase-in propor-
22 tion is 1.

23 “(v) FINAL APPLICABLE REBATE PER-
24 CENTAGE.—Subject to clause (vi), the final

1 applicable rebate percentage under this
2 clause is—

3 “(I) in the case of a plan with a
4 quality rating under such system of at
5 least 4.5 stars, 70 percent;

6 “(II) in the case of a plan with
7 a quality rating under such system of
8 at least 3.5 stars and less than 4.5
9 stars, 65 percent; and

10 “(III) in the case of a plan with
11 a quality rating under such system of
12 less than 3.5 stars, 50 percent.

13 “(vi) TREATMENT OF LOW ENROLL-
14 MENT AND NEW PLANS.—For purposes of
15 clause (v)—

16 “(I) for 2012, in the case of a
17 plan described in subclause (I) of sub-
18 section (o)(3)(A)(ii), the plan shall be
19 treated as having a rating of 4.5
20 stars; and

21 “(II) for 2012 or a subsequent
22 year, in the case of a new MA plan
23 (as defined under subclause (III) of
24 subsection (o)(3)(A)(iii)) that is
25 treated as a qualifying plan pursuant

1 to subclause (I) of such subsection,
2 the plan shall be treated as having a
3 rating of 3.5 stars.”.

4 (e) CODING INTENSITY ADJUSTMENT.—Section
5 1853(a)(1)(C)(ii) of such Act (42 U.S.C. 1395w–
6 23(a)(1)(C)(ii)) is amended—

7 (1) in the heading, by striking “DURING PHASE-
8 OUT OF BUDGET NEUTRALITY FACTOR” and insert-
9 ing “OF CODING ADJUSTMENT”;

10 (2) in the matter before subclause (I), by strik-
11 ing “through 2010” and inserting “and each subse-
12 quent year”; and

13 (3) in subclause (II)—

14 (A) in the first sentence, by inserting “an-
15 nually” before “conduct an analysis”;

16 (B) in the second sentence—

17 (i) by inserting “on a timely basis”
18 after “are incorporated”; and

19 (ii) by striking “only for 2008, 2009,
20 and 2010” and inserting “for 2008 and
21 subsequent years”;

22 (C) in the third sentence, by inserting
23 “and updated as appropriate” before the period
24 at the end; and

1 (D) by adding at the end the following new
2 subclauses:

3 “(III) In calculating each year’s
4 adjustment for 2019 and subsequent
5 years, the adjustment factor shall be
6 no less than 5.7 percent.

7 “(IV) Such adjustment shall be
8 applied to risk scores until the Sec-
9 retary implements risk adjustment
10 using Medicare Advantage diagnostic,
11 cost, and use data.”.

12 (f) REPEAL OF COMPARATIVE COST ADJUSTMENT
13 PROGRAM.—Section 1860C–1 of the Social Security Act
14 (42 U.S.C. 1395w–29), as added by section 241(a) of the
15 Medicare Prescription Drug, Improvement, and Mod-
16 ernization Act of 2003 (Public Law 108–173), is repealed.

17 **SEC. 1103. SAVINGS FROM LIMITS ON MA PLAN ADMINIS-**
18 **TRATIVE COSTS.**

19 Section 1857(e) of the Social Security Act (42 U.S.C.
20 1395w–27(e)) is amended by adding at the end the fol-
21 lowing new paragraph:

22 “(4) REQUIREMENT FOR MINIMUM MEDICAL
23 LOSS RATIO.—If the Secretary determines for a con-
24 tract year (beginning with 2014) that an MA plan

1 has failed to have a medical loss ratio of at least
2 .85—

3 “(A) the MA plan shall remit to the Sec-
4 retary an amount equal to the product of—

5 “(i) the total revenue of the MA plan
6 under this part for the contract year; and

7 “(ii) the difference between .85 and
8 the medical loss ratio;

9 “(B) for 3 consecutive contract years, the
10 Secretary shall not permit the enrollment of
11 new enrollees under the plan for coverage dur-
12 ing the second succeeding contract year; and

13 “(C) the Secretary shall terminate the plan
14 contract if the plan fails to have such a medical
15 loss ratio for 5 consecutive contract years.

16 Amounts collected pursuant to subparagraph (A)
17 shall be deposited into the Centers for Medicare &
18 Medicaid Program Management Account to be avail-
19 able until expended.”.

20 **SEC. 1104. DISPROPORTIONATE SHARE HOSPITAL (DSH)**
21 **PAYMENTS.**

22 Section 1886(r) of the Social Security Act (42 U.S.C.
23 1395ww(r)), as added by section 3133 of the Patient Pro-
24 tection and Affordable Care Act and as amended by sec-
25 tion 10316 of such Act, is amended—

1 (1) in paragraph (1), by striking “2015” and
2 inserting “2014”; and

3 (2) in paragraph (2)—

4 (A) in the matter preceding subparagraph
5 (A), by striking “2015” and inserting “2014”;

6 (B) in subparagraph (B)(i)—

7 (i) in the heading, by inserting “2014,”
8 after “YEARS”;

9 (ii) in the matter preceding subclause
10 (I), by inserting “2014,” after “each of fis-
11 cal years”;

12 (iii) in subclause (I), by striking “on
13 such Act” and inserting “on the Health
14 Care and Education Affordability Rec-
15 onciliation Act of 2010”; and

16 (iv) in the matter following subclause
17 (II), by striking “minus 1.5 percentage
18 points” and inserting “minus 0.1 percent-
19 age points for fiscal year 2014 and minus
20 0.2 percentage points for each of fiscal
21 years 2015, 2016, and 2017”; and

22 (C) in subparagraph (B)(ii), in the matter
23 following subclause (II), by striking “and, for
24 each of 2018 and 2019, minus 1.5 percentage

1 points” and inserting “minus 0.2 percentage
2 points for each of fiscal years 2018 and 2019”.

3 **SEC. 1105. MARKET BASKET UPDATES.**

4 (a) IPPS.—Section 1886(b)(3)(B) of the Social Se-
5 curity Act (42 U.S.C. 1395ww(b)(3)(B)), as amended by
6 sections 3401(a)(4) and 10319(a) of the Patient Protec-
7 tion and Affordable Care Act, is amended—

8 (1) in clause (xii)—

9 (A) by placing the subclause (II) (inserted
10 by section 10319(a)(3) of the Patient Protec-
11 tion and Affordable Care Act) immediately after
12 subclause (I) and, in such subclause (II), by
13 striking “and” at the end; and

14 (B) by striking subclause (III) and insert-
15 ing the following:

16 “(III) for fiscal year 2014, by 0.3 percentage
17 point;

18 “(IV) for each of fiscal years 2015 and 2016,
19 by 0.2 percentage point; and

20 “(V) for each of fiscal years 2017, 2018, and
21 2019, by 0.75 percentage point.”; and

22 (2) by striking clause (xiii).

23 (b) LONG-TERM CARE HOSPITALS.—Section
24 1886(m)(4) of the Social Security Act (42 U.S.C.
25 1395ww(m)(4)), as added by section 3401(e) of the Pa-

1 tient Protection and Affordable Care Act and amended by
2 section 10319(b) of such Act, is amended—

3 (1) in subparagraph (A)—

4 (A) in clause (iii), by striking “and” at the
5 end; and

6 (B) by striking clause (iv) and inserting
7 the following:

8 “(iv) for rate year 2014, 0.3 percent-
9 age point;

10 “(v) for each of rate years 2015 and
11 2016, 0.2 percentage point; and

12 “(vi) for each of rate years 2017,
13 2018, and 2019, 0.75 percentage point.”;

14 (2) by striking subparagraph (B); and

15 (3) by striking “(4) OTHER ADJUSTMENT.—”

16 and all that follows through “For purposes” and in-
17 serting “(4) OTHER ADJUSTMENT.—For purposes”
18 (and redesignating clauses (i) through (vi) as sub-
19 paragraphs (A) through (F), respectively, with ap-
20 propriate indentation).

21 (c) INPATIENT REHABILITATION FACILITIES.—Sec-
22 tion 1886(j)(3)(D) of the Social Security Act (42 U.S.C.
23 1395ww(j)(3)(D)), as added by section 3401(d)(2) of the
24 Patient Protection and Affordable Care Act and amended
25 by section 10319(e) of such Act, is amended—

1 (1) in clause (i)—

2 (A) by placing the subclause (II) (inserted
3 by section 10319(c)(3) of the Patient Protec-
4 tion and Affordable Care Act) immediately after
5 subclause (I) and, in such subclause (II), by
6 striking “and” at the end; and

7 (B) by striking subclause (III) and insert-
8 ing the following:

9 “(III) for fiscal year 2014, 0.3
10 percentage point;

11 “(IV) for each of fiscal years
12 2015 and 2016, 0.2 percentage point;
13 and

14 “(V) for each of fiscal years
15 2017, 2018, and 2019, 0.75 percent-
16 age point.”;

17 (2) by striking clause (ii); and

18 (3) by striking “(D) OTHER ADJUSTMENT.—”
19 and all that follows through “For purposes” and in-
20 serting “(D) OTHER ADJUSTMENT.—For purposes”
21 (and redesignating subclauses (I) through (V) as
22 clauses (i) through (v), respectively, with appropriate
23 indentation).

24 (d) PSYCHIATRIC HOSPITALS.—Section 1886(s)(3) of
25 the Social Security Act, as added by section 3401(f) of

1 the Patient Protection and Affordable Care Act and
2 amended by section 10319(e) of such Act, is amended—

3 (1) in subparagraph (A)—

4 (A) by placing the clause (ii) (inserted by
5 section 10319(e)(3) of the Patient Protection
6 and Affordable Care Act) immediately after
7 clause (i) and, in such clause (ii), by striking
8 “and” at the end; and

9 (B) by striking clause (iii) and inserting
10 the following:

11 “(iii) for the rate year beginning in
12 2014, 0.3 percentage point;

13 “(iv) for each of the rate years begin-
14 ning in 2015 and 2016, 0.2 percentage
15 point; and

16 “(v) for each of the rate years begin-
17 ning in 2017, 2018, and 2019, 0.75 per-
18 centage point.”;

19 (2) by striking subparagraph (B); and

20 (3) by striking “(3) OTHER ADJUSTMENT.—”

21 and all that follows through “For purposes” and in-
22 serting “(3) OTHER ADJUSTMENT.—For purposes”
23 (and redesignating clauses (i) through (v) as sub-
24 paragraphs (A) through (E), respectively, with ap-
25 propriate indentation).

1 (e) OUTPATIENT HOSPITALS.—Section
2 1833(t)(3)(G) of the Social Security Act (42 U.S.C.
3 1395l(t)(3)(G)), as added by section 3401(i)(2) of the Pa-
4 tient Protection and Affordable Care Act and amended by
5 section 10319(g) of such Act, is amended—

6 (1) in clause (i)—

7 (A) by placing the subclause (II) (inserted
8 by section 10319(g)(3) of the Patient Protec-
9 tion and Affordable Care Act) immediately after
10 subclause (I) and, in such subclause (II), by
11 striking “and” at the end; and

12 (B) by striking subclause (III) and insert-
13 ing the following:

14 “(III) for 2014, 0.3 percentage
15 point;

16 “(IV) for each of 2015 and 2016,
17 0.2 percentage point; and

18 “(V) for each of 2017, 2018, and
19 2019, 0.75 percentage point.”;

20 (2) by striking clause (ii); and

21 (3) by striking “(G) OTHER ADJUSTMENT.—”

22 and all that follows through “For purposes” and in-
23 serting “(G) OTHER ADJUSTMENT.—For purposes”

24 (and redesignating subclauses (I) through (V) as

1 clauses (i) through (v), respectively, with appropriate
2 indentation).

3 **SEC. 1106. PHYSICIAN OWNERSHIP-REFERRAL.**

4 Section 1877(i) of the Social Security Act (42 U.S.C.
5 1395nn(i)), as added by section 6001(a)(3) of the Patient
6 Protection and Affordable Care Act and as amended by
7 section 10601(a) of such Act, is amended—

8 (1) in paragraph (1)(A)(i), by striking “August
9 1, 2010” and inserting “December 31, 2010”; and

10 (2) in paragraph (3)—

11 (A) in subparagraph (A)(i), by striking
12 “an applicable hospital (as defined in subpara-
13 graph (E))” and inserting “a hospital that is an
14 applicable hospital (as defined in subparagraph
15 (E)) or is a high Medicaid facility described in
16 subparagraph (F)”;

17 (B) in subparagraph (C)(iii), by inserting
18 after “date of enactment of this subsection” the
19 following: “(or, in the case of a hospital that
20 did not have a provider agreement in effect as
21 of such date but does have such an agreement
22 in effect on December 31, 2010, the effective
23 date of such provider agreement)”;

1 (C) by redesignating subparagraphs (F)
2 through (H) as subparagraphs (G) through (I),
3 respectively; and

4 (D) by inserting after subparagraph (E)
5 the following new subparagraph:

6 “(F) HIGH MEDICAID FACILITY DE-
7 SCRIBED.—A high Medicaid facility described in
8 this subparagraph is a hospital that—

9 “(i) is not the sole hospital in a coun-
10 ty;

11 “(ii) with respect to each of the 3
12 most recent years for which data are avail-
13 able, has an annual percent of total inpa-
14 tient admissions that represent inpatient
15 admissions under title XIX that is esti-
16 mated to be greater than such percent with
17 respect to such admissions for any other
18 hospital located in the county in which the
19 hospital is located; and

20 “(iii) meets the conditions described
21 in subparagraph (E)(iii).”.

22 **SEC. 1107. PAYMENT FOR IMAGING SERVICES.**

23 Section 1848 of the Social Security Act (42 U.S.C.
24 1395w-4), as amended by section 3135(a) of the Patient
25 Protection and Affordable Care Act, is amended—

1 (1) in subsection (b)(4)—

2 (A) in subparagraph (B), by striking “this
3 paragraph” and inserting “subparagraph (A)”;
4 and

5 (B) by amending subparagraph (C) to read
6 as follows:

7 “(C) ADJUSTMENT IN IMAGING UTILIZA-
8 TION RATE.—With respect to fee schedules es-
9 tablished for 2011 and subsequent years, in the
10 methodology for determining practice expense
11 relative value units for expensive diagnostic im-
12 aging equipment under the final rule published
13 by the Secretary in the Federal Register on No-
14 vember 25, 2009 (42 CFR 410, et al.), the Sec-
15 retary shall use a 75 percent assumption in-
16 stead of the utilization rates otherwise estab-
17 lished in such final rule.”; and

18 (2) in subsection (c)(2)(B)(v), by striking sub-
19 clauses (III), (IV), and (V) and inserting the fol-
20 lowing new subclause:

21 “(III) CHANGE IN UTILIZATION
22 RATE FOR CERTAIN IMAGING SERV-
23 ICES.—Effective for fee schedules es-
24 tablished beginning with 2011, re-
25 duced expenditures attributable to the

1 change in the utilization rate applica-
2 ble to 2011, as described in subsection
3 (b)(4)(C).”.

4 **Subtitle C—Medicaid**

5 **SEC. 1201. FEDERAL FUNDING FOR STATES.**

6 Section 1905 of the Social Security Act (42 U.S.C.
7 1396d), as amended by sections 2001(a)(3) and 10201(e)
8 of the Patient Protection and Affordable Care Act, is
9 amended—

10 (1) in subsection (y)—

11 (A) by redesignating subclause (II) of
12 paragraph (1)(B)(ii) as paragraph (5) of sub-
13 section (z) and realigning the left margins ac-
14 cordingly; and

15 (B) by striking paragraph (1) and insert-
16 ing the following:

17 “(1) AMOUNT OF INCREASE.—Notwithstanding
18 subsection (b), the Federal medical assistance per-
19 centage for a State that is one of the 50 States or
20 the District of Columbia, with respect to amounts
21 expended by such State for medical assistance for
22 newly eligible individuals described in subclause
23 (VIII) of section 1902(a)(10)(A)(i), shall be equal
24 to—

1 “(A) 100 percent for calendar quarters in
2 2014, 2015, and 2016;

3 “(B) 95 percent for calendar quarters in
4 2017;

5 “(C) 94 percent for calendar quarters in
6 2018;

7 “(D) 93 percent for calendar quarters in
8 2019; and

9 “(E) 90 percent for calendar quarters in
10 2020 and each year thereafter.”; and

11 (2) in subsection (z)—

12 (A) in paragraph (1), by striking “Sep-
13 tember 30, 2019” and inserting “December 31,
14 2015” and by striking “subsection
15 (y)(1)(B)(ii)(II)” and inserting “paragraph
16 (3)”;

17 (B) by striking paragraphs (2) through (4)
18 and inserting the following:

19 “(2)(A) For calendar quarters in 2014 and
20 each year thereafter, the Federal medical assistance
21 percentage otherwise determined under subsection
22 (b) for an expansion State described in paragraph
23 (3) with respect to medical assistance for individuals
24 described in section 1902(a)(10)(A)(i)(VIII) who are
25 nonpregnant childless adults with respect to whom

1 the State may require enrollment in benchmark cov-
2 erage under section 1937 shall be equal to the per-
3 cent specified in subparagraph (B)(i) for such year.

4 “(B)(i) The percent specified in this subpara-
5 graph for a State for a year is equal to the Federal
6 medical assistance percentage (as defined in the first
7 sentence of subsection (b)) for the State increased
8 by a number of percentage points equal to the tran-
9 sition percentage (specified in clause (ii) for the
10 year) of the number of percentage points by which—

11 “(I) such Federal medical assistance per-
12 centage for the State, is less than

13 “(II) the percent specified in subsection
14 (y)(1) for the year.

15 “(ii) The transition percentage specified in this
16 clause for—

17 “(I) 2014 is 50 percent;

18 “(II) 2015 is 60 percent;

19 “(III) 2016 is 70 percent;

20 “(IV) 2017 is 80 percent;

21 “(V) 2018 is 90 percent; and

22 “(VI) 2019 and each subsequent year is
23 100 percent.”; and

24 (C) by redesignating paragraph (5) (as
25 added by paragraph (1)(A) of this section) as

1 paragraph (3), realigning the left margins to
2 align with paragraph (2), and striking the
3 heading and all that follows through “a State
4 is” and inserting “A State is”.

5 **SEC. 1202. PAYMENTS TO PRIMARY CARE PHYSICIANS.**

6 (a) IN GENERAL.—

7 (1) FEE-FOR-SERVICE PAYMENTS.—Section
8 1902 of the Social Security Act (42 U.S.C. 1396a),
9 as amended by section 2303(a)(2) of the Patient
10 Protection and Affordable Care Act, is amended—

11 (A) in subsection (a)(13)—

12 (i) by striking “and” at the end of
13 subparagraph (A);

14 (ii) by adding “and” at the end of
15 subparagraph (B); and

16 (iii) by adding at the end the fol-
17 lowing new subparagraph:

18 “(C) payment for primary care services (as
19 defined in subsection (jj)) furnished in 2013
20 and 2014 by a physician with a primary spe-
21 cialty designation of family medicine, general
22 internal medicine, or pediatric medicine at a
23 rate not less than 100 percent of the payment
24 rate that applies to such services and physician
25 under part B of title XVIII (or, if greater, the

1 payment rate that would be applicable under
2 such part if the conversion factor under section
3 1848(d) for the year involved were the conver-
4 sion factor under such section for 2009);” and

5 (B) by adding at the end the following new
6 subsection:

7 “(jj) PRIMARY CARE SERVICES DEFINED.—For pur-
8 poses of subsection (a)(13)(C), the term ‘primary care
9 services’ means—

10 “(1) evaluation and management services that
11 are procedure codes (for services covered under title
12 XVIII) for services in the category designated Eval-
13 uation and Management in the Healthcare Common
14 Procedure Coding System (established by the Sec-
15 retary under section 1848(c)(5) as of December 31,
16 2009, and as subsequently modified); and

17 “(2) services related to immunization adminis-
18 tration for vaccines and toxoids for which CPT codes
19 90465, 90466, 90467, 90468, 90471, 90472, 90473,
20 or 90474 (as subsequently modified) apply under
21 such System.”.

22 (2) UNDER MEDICAID MANAGED CARE
23 PLANS.—Section 1932(f) of such Act (42 U.S.C.
24 1396u-2(f)) is amended—

1 (A) in the heading, by adding at the end
2 the following: “; ADEQUACY OF PAYMENT FOR
3 PRIMARY CARE SERVICES”; and

4 (B) by inserting before the period at the
5 end the following: “and, in the case of primary
6 care services described in section
7 1902(a)(13)(C), consistent with the minimum
8 payment rates specified in such section (regard-
9 less of the manner in which such payments are
10 made, including in the form of capitation or
11 partial capitation)”.

12 (b) INCREASE IN PAYMENT USING INCREASED
13 FMAP.—Section 1905 of the Social Security Act, as
14 amended by section 1004(b) of this Act and section
15 10201(c)(6) of the Patient Protection and Affordable Care
16 Act, is amended by adding at the end the following new
17 subsection:

18 “(dd) INCREASED FMAP FOR ADDITIONAL EXPEND-
19 ITURES FOR PRIMARY CARE SERVICES.—Notwithstanding
20 subsection (b), with respect to the portion of the amounts
21 expended for medical assistance for services described in
22 section 1902(a)(13)(C) furnished on or after January 1,
23 2013, and before January 1, 2015, that is attributable to
24 the amount by which the minimum payment rate required
25 under such section (or, by application, section 1932(f)) ex-

1 ceeds the payment rate applicable to such services under
2 the State plan as of July 1, 2009, the Federal medical
3 assistance percentage for a State that is one of the 50
4 States or the District of Columbia shall be equal to 100
5 percent. The preceding sentence does not prohibit the pay-
6 ment of Federal financial participation based on the Fed-
7 eral medical assistance percentage for amounts in excess
8 of those specified in such sentence.”.

9 **SEC. 1203. DISPROPORTIONATE SHARE HOSPITAL PAY-**
10 **MENTS.**

11 (a) IN GENERAL.—Section 1923(f) of the Social Se-
12 curity Act (42 U.S.C. 1396r-4(f)), as amended by sections
13 2551(a)(4) and 10201(e)(1) of the Patient Protection and
14 Affordable Care Act, is amended—

15 (1) in paragraph (6)(B)(iii), in the matter pre-
16 ceding subclause (I), by striking “or paragraph (7)”;
17 and

18 (2) by striking paragraph (7) and inserting the
19 following:

20 “(7) MEDICAID DSH REDUCTIONS.—

21 “(A) REDUCTIONS.—

22 “(i) IN GENERAL.—For each of fiscal
23 years 2014 through 2020 the Secretary
24 shall effect the following reductions:

1 “(I) REDUCTION IN DSH ALLOT-
2 MENTS.—The Secretary shall reduce
3 DSH allotments to States in the
4 amount specified under the DSH
5 health reform methodology under sub-
6 paragraph (B) for the State for the
7 fiscal year.

8 “(II) REDUCTIONS IN PAY-
9 MENTS.—The Secretary shall reduce
10 payments to States under section
11 1903(a) for each calendar quarter in
12 the fiscal year, in the manner speci-
13 fied in clause (iii), in an amount equal
14 to $\frac{1}{4}$ of the DSH allotment reduction
15 under subclause (I) for the State for
16 the fiscal year.

17 “(ii) AGGREGATE REDUCTIONS.—The
18 aggregate reductions in DSH allotments
19 for all States under clause (i)(I) shall be
20 equal to—

21 “(I) \$500,000,000 for fiscal year
22 2014;

23 “(II) \$600,000,000 for fiscal
24 year 2015;

1 “(III) \$600,000,000 for fiscal
2 year 2016;

3 “(IV) \$1,800,000,000 for fiscal
4 year 2017;

5 “(V) \$5,000,000,000 for fiscal
6 year 2018;

7 “(VI) \$5,600,000,000 for fiscal
8 year 2019; and

9 “(VII) \$4,000,000,000 for fiscal
10 year 2020.

11 The Secretary shall distribute such aggre-
12 gate reductions among States in accord-
13 ance with subparagraph (B).

14 “(iii) MANNER OF PAYMENT REDUC-
15 TION.—The amount of the payment reduc-
16 tion under clause (i)(II) for a State for a
17 quarter shall be deemed an overpayment to
18 the State under this title to be disallowed
19 against the State’s regular quarterly draw
20 for all spending under section 1903(d)(2).
21 Such a disallowance is not subject to a re-
22 consideration under subsections (d) and (e)
23 of section 1116.

1 “(iv) DEFINITION.—In this para-
2 graph, the term ‘State’ means the 50
3 States and the District of Columbia.

4 “(B) DSH HEALTH REFORM METHOD-
5 OLOGY.—The Secretary shall carry out sub-
6 paragraph (A) through use of a DSH Health
7 Reform methodology that meets the following
8 requirements:

9 “(i) The methodology imposes the
10 largest percentage reductions on the States
11 that—

12 “(I) have the lowest percentages
13 of uninsured individuals (determined
14 on the basis of data from the Bureau
15 of the Census, audited hospital cost
16 reports, and other information likely
17 to yield accurate data) during the
18 most recent year for which such data
19 are available; or

20 “(II) do not target their DSH
21 payments on—

22 “(aa) hospitals with high
23 volumes of Medicaid inpatients
24 (as defined in subsection
25 (b)(1)(A)); and

1 “(bb) hospitals that have
2 high levels of uncompensated
3 care (excluding bad debt).

4 “(ii) The methodology imposes a
5 smaller percentage reduction on low DSH
6 States described in paragraph (5)(B).

7 “(iii) The methodology takes into ac-
8 count the extent to which the DSH allot-
9 ment for a State was included in the budg-
10 et neutrality calculation for a coverage ex-
11 pansion approved under section 1115 as of
12 July 31, 2009.”.

13 (b) EXTENSION OF DSH ALLOTMENT.—Section
14 1923(f)(6)(A) of the Social Security Act (42 U.S.C.
15 1396r-4(f)(6)(A)) is amended by adding at the end the
16 following:

17 “(v) ALLOTMENT FOR 2D, 3RD, AND
18 4TH QUARTERS OF FISCAL YEAR 2012 AND
19 FOR FISCAL YEAR 2013.—Notwithstanding
20 the table set forth in paragraph (2):

21 “(I) 2D, 3RD, AND 4TH QUAR-
22 TERS OF FISCAL YEAR 2012.—In the
23 case of a State that has a DSH allot-
24 ment of \$0 for the 2d, 3rd, and 4th
25 quarters of fiscal year 2012, the DSH

1 allotment shall be \$47,200,000 for
2 such quarters.

3 “(II) FISCAL YEAR 2013.—In the
4 case of a State that has a DSH allot-
5 ment of \$0 for fiscal year 2013, the
6 DSH allotment shall be \$53,100,000
7 for such fiscal year.”.

8 **SEC. 1204. FUNDING FOR THE TERRITORIES.**

9 (a) IN GENERAL.—Part III of subtitle D of title I
10 of the Patient Protection and Affordable Care Act, as
11 amended by section 10104(m) of such Act, is amended
12 by inserting after section 1322 the following section:

13 **“SEC. 1323. FUNDING FOR THE TERRITORIES.**

14 “(a) IN GENERAL.—A territory that—

15 “(1) elects consistent with subsection (b) to es-
16 tablish an Exchange in accordance with part II of
17 this subtitle and establishes such an Exchange in ac-
18 cordance with such part shall be treated as a State
19 for purposes of such part and shall be entitled to
20 payment from the amount allocated to the territory
21 under subsection (c); or

22 “(2) does not make such election shall be enti-
23 tled to an increase in the dollar limitation applicable
24 to the territory under subsections (f) and (g) of sec-
25 tion 1108 of the Social Security Act (42 U.S.C.

1 1308) for such period in such amount for such terri-
2 tory and such increase shall not be taken into ac-
3 count in computing any other amount under such
4 subsections.

5 “(b) TERMS AND CONDITIONS.—An election under
6 subsection (a)(1) shall—

7 “(1) not be effective unless the election is con-
8 sistent with a form and manner specified by the Sec-
9 retary and is received not later than October 1,
10 2013; and

11 “(2) be contingent upon entering into an agree-
12 ment between the territory and the Secretary that
13 requires that—

14 “(A) funds provided under the agreement
15 shall be used only to provide premium and cost-
16 sharing assistance to residents of the territory
17 obtaining health insurance coverage through the
18 Exchange; and

19 “(B) the premium and cost-sharing assist-
20 ance provided under such agreement shall be
21 structured in such a manner so as to prevent
22 any gap in assistance for individuals between
23 the income level at which medical assistance is
24 available through the territory’s Medicaid plan
25 under title XIX of the Social Security Act and

1 the income level at which premium and cost-
2 sharing assistance is available under the agree-
3 ment.

4 “(c) APPROPRIATION AND ALLOCATION.—

5 “(1) APPROPRIATION.—Out of any funds in the
6 Treasury not otherwise appropriated, there is appro-
7 priated for purposes of payment pursuant to sub-
8 section (a) \$1,000,000,000, to be available during
9 the period beginning with 2014 and ending with
10 2019.

11 “(2) ALLOCATION.—The Secretary shall allo-
12 cate the amount appropriated under paragraph (1)
13 among the territories for purposes of carrying out
14 this section as follows:

15 “(A) For Puerto Rico, \$925,000,000.

16 “(B) For another territory, the portion of
17 \$75,000,000 specified by the Secretary.”.

18 (b) MEDICAID FUNDING.—

19 (1) INCREASE IN FUNDING CAPS.—Section
20 1108(g) of the Social Security Act (42 U.S.C.
21 1308(g)), as amended by section 2005(a) of the Pa-
22 tient Protection and Affordable Care Act, is amend-
23 ed—

24 (A) in paragraph (2), by inserting “and
25 section 1323(a)(2) of the Patient Protection

1 and Affordable Care Act” after “subject to”;

2 and

3 (B) by striking paragraph (5) and insert-
4 ing the following:

5 “(5) ADDITIONAL INCREASE.—The Secretary
6 shall increase the amounts otherwise determined
7 under this subsection for Puerto Rico, the Virgin Is-
8 lands, Guam, the Northern Mariana Islands, and
9 American Samoa (after the application of subsection
10 (f) and the preceding paragraphs of this subsection)
11 for the period beginning July 1, 2011, and ending
12 on September 30, 2019, by such amounts that the
13 total additional payments under title XIX to such
14 territories equals \$6,300,000,000 for such period.
15 The Secretary shall increase such amounts in pro-
16 portion to the amounts applicable to such territories
17 under this subsection and subsection (f) on the date
18 of enactment of this paragraph.”.

19 (2) DISREGARD OF PAYMENTS; INCREASED
20 FMAP.—Section 2005 of the Patient Protection and
21 Affordable Care Act is amended—

22 (A) by repealing subsection (b) (and the
23 amendments made by that subsection) and sec-
24 tion 1108(g)(4) of the Social Security Act shall

1 be applied as if such amendments had never
2 been enacted; and

3 (B) in subsection (e)(2), by striking “Jan-
4 uary” and inserting “July”.

5 **SEC. 1205. DELAY IN COMMUNITY FIRST CHOICE OPTION.**

6 Section 1915(k)(1) of the Social Security Act (42
7 U.S.C. 1396n(k)), as added by section 2401 of the Patient
8 Protection and Affordable Care Act, is amended by strik-
9 ing “October 1, 2010” and inserting “October 1, 2011”.

10 **SEC. 1206. DRUG REBATES FOR NEW FORMULATIONS OF**
11 **EXISTING DRUGS.**

12 (a) TREATMENT OF NEW FORMULATIONS.—Sub-
13 paragraph (C) of section 1927(c)(2) of the Social Security
14 Act (42 U.S.C. 1396r–8(c)(2)), as added by section
15 2501(d) of the Patient Protection and Affordable Care
16 Act, is amended to read as follows:

17 “(C) TREATMENT OF NEW FORMULA-
18 TIONS.—In the case of a drug that is a line ex-
19 tension of a single source drug or an innovator
20 multiple source drug that is an oral solid dos-
21 age form, the rebate obligation with respect to
22 such drug under this section shall be the
23 amount computed under this section for such
24 new drug or, if greater, the product of—

1 “(i) the average manufacturer price of
2 the line extension of a single source drug
3 or an innovator multiple source drug that
4 is an oral solid dosage form;

5 “(ii) the highest additional rebate
6 (calculated as a percentage of average
7 manufacturer price) under this section for
8 any strength of the original single source
9 drug or innovator multiple source drug;
10 and

11 “(iii) the total number of units of
12 each dosage form and strength of the line
13 extension product paid for under the State
14 plan in the rebate period (as reported by
15 the State).

16 In this subparagraph, the term ‘line extension’
17 means, with respect to a drug, a new formula-
18 tion of the drug, such as an extended release
19 formulation.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 subsection (a) shall take effect as if included in the enact-
22 ment of the Patient Protection and Affordable Care Act.

1 **Subtitle D—Reducing Fraud,**
2 **Waste, and Abuse**

3 **SEC. 1301. COMMUNITY MENTAL HEALTH CENTERS.**

4 (a) **IN GENERAL.**—Section 1861(ff)(3)(B) of the So-
5 cial Security Act (42 U.S.C. 1395x(ff)(3)(B)) is amend-
6 ed—

7 (1) in clause (ii), by striking “and” at the end;

8 (2) by redesignating clause (iii) as clause (iv);

9 and

10 (3) by inserting after clause (ii) the following:

11 “(iii) provides a significant share of its services
12 to individuals who are not eligible for benefits under
13 this title; and”.

14 (b) **RESTRICTION.**—Section 1861(ff)(3)(A) of such
15 Act (42 U.S.C. 1395x(ff)(3)(A)) is amended by inserting
16 “other than in an individual’s home or in an inpatient or
17 residential setting” before the period.

18 (c) **EFFECTIVE DATE.**—The amendments made by
19 this section shall apply to items and services furnished on
20 or after the first day of the first calendar quarter that
21 begins at least 12 months after the date of the enactment
22 of this Act.

1 **SEC. 1302. MEDICARE PREPAYMENT MEDICAL REVIEW LIM-**
2 **ITATIONS .**

3 Section 1874A(h) of the Social Security Act (42
4 U.S.C. 1395w-3a(h)) is repealed.

5 **SEC. 1303. CMS-IRS DATA MATCH TO IDENTIFY FRAUDU-**
6 **LENT PROVIDERS.**

7 (a) **AUTHORITY TO DISCLOSE RETURN INFORMATION**
8 **CONCERNING OUTSTANDING TAX DEBTS FOR PURPOSES**
9 **OF ENHANCING MEDICARE PROGRAM INTEGRITY.—**

10 (1) **IN GENERAL.—**Section 6103(l) of the Inter-
11 nal Revenue Code of 1986 is amended by adding at
12 the end the following new paragraph:

13 “(22) **DISCLOSURE OF RETURN INFORMATION**
14 **TO DEPARTMENT OF HEALTH AND HUMAN SERVICES**
15 **FOR PURPOSES OF ENHANCING MEDICARE PROGRAM**
16 **INTEGRITY.—**

17 “(A) **IN GENERAL.—**The Secretary shall,
18 upon written request from the Secretary of
19 Health and Human Services, disclose to officers
20 and employees of the Department of Health
21 and Human Services return information with
22 respect to a taxpayer who has applied to enroll,
23 or reenroll, as a provider of services or supplier
24 under the Medicare program under title XVIII
25 of the Social Security Act. Such return infor-
26 mation shall be limited to—

1 “(i) the taxpayer identity information
2 with respect to such taxpayer;

3 “(ii) the amount of the seriously de-
4 linquent tax debt owed by that taxpayer;
5 and

6 “(iii) the taxable year to which the se-
7 riously delinquent tax debt pertains.

8 “(B) RESTRICTION ON DISCLOSURE.—Re-
9 turn information disclosed under subparagraph
10 (A) may be used by officers and employees of
11 the Department of Health and Human Services
12 for the purposes of, and to the extent necessary
13 in, establishing the taxpayer’s eligibility for en-
14 rollment or reenrollment in the Medicare pro-
15 gram, or in any administrative or judicial pro-
16 ceeding relating to, or arising from, a denial of
17 such enrollment or reenrollment, or in deter-
18 mining the level of enhanced oversight to be ap-
19 plied with respect to such taxpayer pursuant to
20 section 1866(j)(3) of the Social Security Act.

21 “(C) SERIOUSLY DELINQUENT TAX
22 DEBT.—For purposes of this paragraph, the
23 term ‘seriously delinquent tax debt’ means an
24 outstanding debt under this title for which a
25 notice of lien has been filed pursuant to section

1 6323, but the term does not include a debt that
2 is being paid in a timely manner pursuant to an
3 agreement under section 6159 or 7122, or a
4 debt with respect to which a collection due proc-
5 ess hearing under section 6330, or relief under
6 subsection (a), (b), or (f) of section 6015, is re-
7 quested or pending.”.

8 (2) CONFORMING AMENDMENTS.—Section
9 6103(p)(4) of such Code, as amended by sections
10 1414 and 3308 the Patient Protection and Afford-
11 able Care Act, in the matter preceding subparagraph
12 (A) and in subparagraph (F)(ii), is amended by
13 striking “or (17)” and inserting “(17), or (22)”
14 each place it appears.

15 (b) SECRETARY’S AUTHORITY TO USE INFORMATION
16 FROM THE DEPARTMENT OF TREASURY IN MEDICARE
17 ENROLLMENTS AND REENROLLMENTS.—Section
18 1866(j)(2) of the Social Security Act (42 U.S.C.
19 1395cc(j)), as inserted by section 6401(a) of the Patient
20 Protection and Affordable Care Act, is further amended—

21 (1) by redesignating subparagraph (E) as sub-
22 paragraph (F); and

23 (2) by inserting after subparagraph (D) the fol-
24 lowing new subparagraph:

1 “(E) USE OF INFORMATION FROM THE
2 DEPARTMENT OF TREASURY CONCERNING TAX
3 DEBTS.—In reviewing the application of a pro-
4 vider of services or supplier to enroll or reenroll
5 under the program under this title, the Sec-
6 retary shall determine, on the basis of informa-
7 tion supplied by the Secretary of the Treasury
8 pursuant to section 6103(l)(22) of the Internal
9 Revenue Code of 1986, whether to deny such
10 application or to apply enhanced oversight to
11 such provider of services or supplier pursuant
12 to paragraph (3) if the Secretary determines
13 such provider of services or supplier owes such
14 a debt.”.

15 (c) AUTHORITY TO ADJUST PAYMENTS OF PRO-
16 VIDERS OF SERVICES AND SUPPLIERS WITH THE SAME
17 TAX IDENTIFICATION NUMBER FOR MEDICARE OBLIGA-
18 TIONS.—Section 1866(j)(5) of the Social Security Act (42
19 U.S.C. 1395cc(j)(5)), as inserted by section 6401(a) of the
20 Patient Protection and Affordable Care Act, is amended—

21 (1) in the paragraph heading, by striking
22 “PAST-DUE” and inserting “MEDICARE”;

23 (2) in subparagraph (A), by striking “past-due
24 obligations described in subparagraph (B)(ii) of an”

1 and inserting “amount described in subparagraph
2 (B)(ii) due from such”; and

3 (3) in subparagraph (B)(ii), by striking “a
4 past-due obligation” and inserting “an amount that
5 is more than the amount required to be paid”.

6 **SEC. 1304. FUNDING TO FIGHT FRAUD, WASTE, AND ABUSE.**

7 (a) FUNDING TO FIGHT FRAUD, WASTE, AND
8 ABUSE.—

9 (1) IN GENERAL.—Section 1817(k) of the So-
10 cial Security Act (42 U.S.C. 1395i(k)), as amended
11 by section 6402(i) of the Patient Protection and Af-
12 fordable Care Act, is further amended—

13 (A) by adding at the end the following new
14 paragraph:

15 “(8) ADDITIONAL FUNDING.—

16 “(A) IN GENERAL.—In addition to the
17 funds otherwise appropriated to the Account
18 from the Trust Fund under paragraphs (3)(C)
19 and (4)(A) and for purposes described in para-
20 graphs (3)(C) and (4)(A), there are hereby ap-
21 propriated to such Account from such Trust
22 Fund the following additional amounts:

23 “(i) For fiscal year 2011,
24 \$95,000,000.

1 “(ii) For fiscal year 2012,
2 \$55,000,000.

3 “(iii) For each of fiscal years 2013
4 and 2014, \$30,000,000.

5 “(iv) For each of fiscal years 2015
6 and 2016, \$20,000,000.

7 “(B) ALLOCATION.—The funds appro-
8 priated under this paragraph shall be allocated
9 in the same proportion as the total funding ap-
10 propriated with respect to paragraphs (3)(A)
11 and (4)(A) was allocated with respect to fiscal
12 year 2010, and shall be available without fur-
13 ther appropriation until expended.”; and

14 (B) in paragraph (4)(A), by inserting “for
15 activities described in paragraph (3)(C) and”
16 after “necessary”.

17 (b) MEDICAID INTEGRITY PROGRAM.—Section
18 1936(e)(1) of such Act (42 U.S.C. 1396-u6(e)(1)) is
19 amended—

20 (1) in subparagraph (B), by striking at the end
21 “and”;

22 (2) in subparagraph (C)—

23 (A) by striking “for each fiscal year there-
24 after” and inserting “for each of fiscal years
25 2009 and 2010”; and

1 (B) by striking the period and inserting “;
2 and”; and

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

5 “(D) for each fiscal year after fiscal year
6 2010, the amount appropriated under this para-
7 graph for the previous fiscal year, increased by
8 the percentage increase in the consumer price
9 index for all urban consumers (all items; United
10 States city average) over the previous year.”.

11 **SEC. 1305. 90-DAY PERIOD OF ENHANCED OVERSIGHT FOR**
12 **INITIAL CLAIMS OF DME SUPPLIERS.**

13 Section 1866(j), as amended by section 6401 of the
14 Patient Protection and Affordable Care Act, is further
15 amended—

16 (1) by redesignating paragraphs (4) through
17 (7) as paragraphs (5) through (8), respectively; and

18 (2) by inserting after paragraph (3) the fol-
19 lowing new paragraph:

20 “(4) 90-DAY PERIOD OF ENHANCED OVERSIGHT
21 FOR INITIAL CLAIMS OF DME SUPPLIERS.—For peri-
22 ods beginning after January 1, 2011, if the Sec-
23 retary determines that there is a significant risk of
24 fraudulent activity among suppliers of durable med-
25 ical equipment, in the case of a supplier of durable

1 medical equipment who is within a category or geo-
2 graphic area under title XVIII identified pursuant to
3 such determination and who is initially enrolling
4 under such title, the Secretary shall, notwith-
5 standing sections 1816(c), 1842(c), and 1869(a)(2),
6 withhold payment under such title with respect to
7 durable medical equipment furnished by such sup-
8 plier during the 90-day period beginning on the date
9 of the first submission of a claim under such title
10 for durable medical equipment furnished by such
11 supplier.”.

12 **Subtitle E—Provisions Relating to** 13 **Revenue**

14 **SEC. 1401. HIGH-COST PLAN EXCISE TAX.**

15 (a) IN GENERAL.—Section 4980I of the Internal
16 Revenue Code of 1986, as added by section 9001 of the
17 Patient Protection and Affordable Care Act and amended
18 by section 10901 of such Act, is amended—

19 (1) in subsection (b)(3)(B)—

20 (A) by striking “The annual” and insert-
21 ing the following:

22 “(i) IN GENERAL.—Except as pro-
23 vided in clause (ii), the annual”, and

24 (B) by adding at the end the following new
25 clause:

- 1 “(ii) MULTIEMPLOYER PLAN COV-
2 ERAGE.—Any coverage provided under a
3 multiemployer plan (as defined in section
4 414(f)) shall be treated as coverage other
5 than self-only coverage.”,
6 (2) in subsection (b)(3)(C)—
7 (A) by striking “Except as provided in
8 subparagraph (D)—”
9 (B) in clause (i)—
10 (i) by striking “2013” each place it
11 appears in the heading and the text and
12 inserting “2018”,
13 (ii) by striking “\$8,500” in subclause
14 (I) and inserting “\$10,200 multiplied by
15 the health cost adjustment percentage (de-
16 termined by only taking into account self-
17 only coverage)”, and
18 (iii) by striking “\$23,000” in sub-
19 clause (II) and inserting “\$27,500 multi-
20 plied by the health cost adjustment per-
21 centage (determined by only taking into
22 account coverage other than self-only cov-
23 erage)”,
24 (C) by redesignating clauses (ii) and (iii)
25 as clauses (iv) and (v), respectively, and by in-

1 serting after clause (i) the following new
2 clauses:

3 “(ii) HEALTH COST ADJUSTMENT
4 PERCENTAGE.—For purposes of clause (i),
5 the health cost adjustment percentage is
6 equal to 100 percent plus the excess (if
7 any) of—

8 “(I) the percentage by which the
9 per employee cost for providing cov-
10 erage under the Blue Cross/Blue
11 Shield standard benefit option under
12 the Federal Employees Health Bene-
13 fits Plan for plan year 2018 (deter-
14 mined by using the benefit package
15 for such coverage in 2010) exceeds
16 such cost for plan year 2010, over

17 “(II) 55 percent.

18 “(iii) AGE AND GENDER ADJUST-
19 MENT.—

20 “(I) IN GENERAL.—The amount
21 determined under subclause (I) or (II)
22 of clause (i), whichever is applicable,
23 for any taxable period shall be in-
24 creased by the amount determined
25 under subclause (II).

1 “(II) AMOUNT DETERMINED.—

2 The amount determined under this
3 subclause is an amount equal to the
4 excess (if any) of—

5 “(aa) the premium cost of
6 the Blue Cross/Blue Shield
7 standard benefit option under the
8 Federal Employees Health Bene-
9 fits Plan for the type of coverage
10 provided such individual in such
11 taxable period if priced for the
12 age and gender characteristics of
13 all employees of the individual’s
14 employer, over

15 “(bb) that premium cost for
16 the provision of such coverage
17 under such option in such taxable
18 period if priced for the age and
19 gender characteristics of the na-
20 tional workforce.”.

21 (D) in clause (iv), as redesignated by sub-
22 paragraph (C)—

23 (i) by inserting “covered by the plan”
24 after “whose employees”, and

1 (ii) by striking subclauses (I) and (II)
2 and inserting the following:
3 “(I) the dollar amount in clause
4 (i)(I) shall be increased by \$1,650,
5 and
6 “(II) the dollar amount in clause
7 (i)(II) shall be increased by \$3,450,”
8 and
9 (E) in clause (v), as redesignated by sub-
10 paragraph (C)—
11 (i) by striking “2013” and inserting
12 “2018”,
13 (ii) by striking “clauses (i) and (ii)”
14 and inserting “clauses (i) (after the appli-
15 cation of clause (ii)) and (iv)”, and
16 (iii) by inserting “in the case of deter-
17 minations for calendar years beginning be-
18 fore 2020” after “1 percentage point” in
19 subclause (II) thereof,
20 (3) by striking subparagraph (D) of subsection
21 (b)(3),
22 (4) in subsection (d)(1)(B), by redesignating
23 clause (ii) as clause (iii) and by inserting after
24 clause (i) the following new clause:

1 “(ii) any coverage under a separate
2 policy, certificate, or contract of insurance
3 which provides benefits substantially all of
4 which are for treatment of the mouth (in-
5 cluding any organ or structure within the
6 mouth) or for treatment of the eye, or”,
7 and

8 (5) in subsection (d), by adding at the end the
9 following new paragraph:

10 “(3) EMPLOYEE.—The term ‘employee’ includes
11 any former employee, surviving spouse, or other pri-
12 mary insured individual.”.

13 (b) EFFECTIVE DATES.—

14 (1) Section 9001(c) of the Patient Protection
15 and Affordable Care Act is amended by striking
16 “2012” and inserting “2017”.

17 (2) Section 10901(c) of the Patient Protection
18 and Affordable Care Act is amended by striking
19 “2012” and inserting “2017”.

20 **SEC. 1402. MEDICARE TAX.**

21 (a) INVESTMENT INCOME.—

22 (1) IN GENERAL.—Subtitle A of the Internal
23 Revenue Code of 1986 is amended by inserting after
24 chapter 2 the following new chapter:

1 **“CHAPTER 2A—MEDICARE TAX**

“Sec. 1411. Imposition of tax.

2 **“SEC. 1411. IMPOSITION OF TAX.**

3 “(a) IN GENERAL.—Except as provided in subsection
4 (e)—

5 “(1) APPLICATION TO INDIVIDUALS.—In the
6 case of an individual, there is hereby imposed (in ad-
7 dition to any other tax imposed by this subtitle) for
8 each taxable year a tax equal to 3.8 percent of the
9 lesser of—

10 “(A) net investment income for such tax-
11 able year, or

12 “(B) the excess (if any) of—

13 “(i) the modified adjusted gross in-
14 come for such taxable year, over

15 “(ii) the threshold amount.

16 “(2) APPLICATION TO ESTATES AND TRUSTS.—
17 In the case of an estate or trust, there is hereby im-
18 posed (in addition to any other tax imposed by this
19 subtitle) for each taxable year a tax of 3.8 percent
20 of the lesser of—

21 “(A) the undistributed net investment in-
22 come for such taxable year, or

23 “(B) the excess (if any) of—

1 “(i) the adjusted gross income (as de-
2 fined in section 67(e)) for such taxable
3 year, over

4 “(ii) the dollar amount at which the
5 highest tax bracket in section 1(e) begins
6 for such taxable year.

7 “(b) THRESHOLD AMOUNT.—For purposes of this
8 chapter, the term ‘threshold amount’ means—

9 “(1) in the case of a taxpayer making a joint
10 return under section 6013 or a surviving spouse (as
11 defined in section 2(a)), \$250,000,

12 “(2) in the case of a married taxpayer (as de-
13 fined in section 7703) filing a separate return, ½ of
14 the dollar amount determined under paragraph (1),
15 and

16 “(3) in any other case, \$200,000.

17 “(c) NET INVESTMENT INCOME.—For purposes of
18 this chapter—

19 “(1) IN GENERAL.—The term ‘net investment
20 income’ means the excess (if any) of—

21 “(A) the sum of—

22 “(i) gross income from interest, divi-
23 dends, annuities, royalties, and rents, other
24 than such income which is derived in the

1 ordinary course of a trade or business not
2 described in paragraph (2),

3 “(ii) other gross income derived from
4 a trade or business described in paragraph
5 (2), and

6 “(iii) net gain (to the extent taken
7 into account in computing taxable income)
8 attributable to the disposition of property
9 other than property held in a trade or
10 business not described in paragraph (2),
11 over

12 “(B) the deductions allowed by this sub-
13 title which are properly allocable to such gross
14 income or net gain.

15 “(2) TRADES AND BUSINESSES TO WHICH TAX
16 APPLIES.—A trade or business is described in this
17 paragraph if such trade or business is—

18 “(A) a passive activity (within the meaning
19 of section 469) with respect to the taxpayer, or

20 “(B) a trade or business of trading in fi-
21 nancial instruments or commodities (as defined
22 in section 475(e)(2)).

23 “(3) INCOME ON INVESTMENT OF WORKING
24 CAPITAL SUBJECT TO TAX.—A rule similar to the

1 rule of section 469(e)(1)(B) shall apply for purposes
2 of this subsection.

3 “(4) EXCEPTION FOR CERTAIN ACTIVE INTER-
4 ESTS IN PARTNERSHIPS AND S CORPORATIONS.—In
5 the case of a disposition of an interest in a partner-
6 ship or S corporation—

7 “(A) gain from such disposition shall be
8 taken into account under clause (iii) of para-
9 graph (1)(A) only to the extent of the net gain
10 which would be so taken into account by the
11 transferor if all property of the partnership or
12 S corporation were sold for fair market value
13 immediately before the disposition of such inter-
14 est, and

15 “(B) a rule similar to the rule of subpara-
16 graph (A) shall apply to a loss from such dis-
17 position.

18 “(5) EXCEPTION FOR DISTRIBUTIONS FROM
19 QUALIFIED PLANS.—The term ‘net investment in-
20 come’ shall not include any distribution from a plan
21 or arrangement described in section 401(a), 403(a),
22 403(b), 408, 408A, or 457(b).

23 “(6) SPECIAL RULE.—Net investment income
24 shall not include any item taken into account in de-

1 termining self-employment income for such taxable
2 year on which a tax is imposed by section 1401(b).

3 “(d) MODIFIED ADJUSTED GROSS INCOME.—For
4 purposes of this chapter, the term ‘modified adjusted gross
5 income’ means adjusted gross income increased by the ex-
6 cess of—

7 “(1) the amount excluded from gross income
8 under section 911(a)(1), over

9 “(2) the amount of any deductions (taken into
10 account in computing adjusted gross income) or ex-
11 clusions disallowed under section 911(d)(6) with re-
12 spect to the amounts described in paragraph (1).

13 “(e) NONAPPLICATION OF SECTION.—This section
14 shall not apply to—

15 “(1) a nonresident alien, or

16 “(2) a trust all of the unexpired interests in
17 which are devoted to one or more of the purposes
18 described in section 170(c)(2)(B).”.

19 (2) ESTIMATED TAXES.—Section 6654 of the
20 Internal Revenue Code of 1986 is amended—

21 (A) in subsection (a), by striking “and the
22 tax under chapter 2” and inserting “the tax
23 under chapter 2, and the tax under chapter
24 2A”, and

25 (B) in subsection (f)—

1 (i) by striking “minus” at the end of
2 paragraph (2) and inserting “plus”, and

3 (ii) by redesignating paragraph (3) as
4 paragraph (4) and inserting after para-
5 graph (2) the following new paragraph:

6 “(3) the taxes imposed by chapter 2A, minus”.

7 (3) FEDERAL SUPPLEMENTARY MEDICAL IN-
8 SURANCE TRUST FUND.—Section 1841(a) of such
9 Act (42 U.S.C. 1395t(a)) is amended by adding at
10 the end the following: “There are hereby appro-
11 priated to the Trust Fund, out of any moneys in the
12 Treasury not otherwise appropriated, amounts equiv-
13 alent to 100 per centum of the taxes imposed by
14 1411 of the Internal Revenue Code of 1986 with re-
15 spect to income described in such section and re-
16 ported to the Secretary of the Treasury or the Sec-
17 retary’s delegate on tax returns under subtitle F of
18 such Code, as determined by the Secretary of the
19 Treasury by applying the applicable rate of tax
20 under such section to such income. The amounts ap-
21 propriated by the preceding sentence shall be trans-
22 ferred from time to time from the general fund of
23 the Treasury to the Trust Fund, such amounts to be
24 determined on the basis of estimates by the Sec-
25 retary of the Treasury of the taxes, specified in the

1 preceding sentence, paid to or deposited into the
2 Treasury; and proper adjustments shall be made in
3 amounts subsequently transferred to the extent prior
4 estimates were in excess of or were less than the
5 taxes specified in such sentence.”.

6 (4) CLERICAL AMENDMENT.—The table of
7 chapters for subtitle A of chapter 1 of the Internal
8 Revenue Code of 1986 is amended by inserting after
9 the item relating to chapter 2 the following new
10 item:

“CHAPTER 2A—MEDICARE TAX”.

11 (5) EFFECTIVE DATES.—The amendments
12 made by this subsection shall apply to taxable years
13 beginning after December 31, 2012.

14 (b) EARNED INCOME.—

15 (1) THRESHOLD.—

16 (A) FICA.—Paragraph (2) of section
17 3101(b) of the Internal Revenue Code of 1986,
18 as added by section 9015 of the Patient Protec-
19 tion and Affordable Care Act and amended by
20 section 10906 of such Act, is amended by strik-
21 ing “and” at the end of subparagraph (A), by
22 redesignating subparagraph (B) as subpara-
23 graph (C), and by inserting after subparagraph
24 (A) the following new subparagraph:

1 “(B) in the case of a married taxpayer (as
2 defined in section 7703) filing a separate re-
3 turn, $\frac{1}{2}$ of the dollar amount determined under
4 subparagraph (A), and”.

5 (B) SECA.—Section 1401(b)(2) of the In-
6 ternal Revenue Code of 1986, as added by sec-
7 tion 9015 of the Patient Protection and Afford-
8 able Care Act and amended by section 10906 of
9 such Act, is amended—

10 (i) in subparagraph (A), by striking
11 “and” at the end of clause (i), by redesign-
12 ating clause (ii) as clause (iii), and by in-
13 serting after clause (i) the following new
14 clause:

15 “(ii) in the case of a married taxpayer
16 (as defined in section 7703) filing a sepa-
17 rate return, $\frac{1}{2}$ of the dollar amount deter-
18 mined under clause (i), and”, and

19 (ii) in subparagraph (B), by striking
20 “under clauses (i) and (ii)” and inserting
21 “under clause (i), (ii), or (iii) (whichever is
22 applicable)”.

23 (2) ESTIMATED TAXES.—Section 6654 of the
24 Internal Revenue Code of 1986 is amended by redesi-
25 gnating subsection (m) as subsection (n) and by in-

1 serting after subsection (l) the following new sub-
2 section:

3 “(m) SPECIAL RULE FOR MEDICARE TAX.—For pur-
4 poses of this section, the tax imposed under section
5 3101(b)(2) (to the extent not withheld) shall be treated
6 as a tax imposed under chapter 2.”.

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply with respect to remu-
9 neration received, and taxable years beginning after,
10 December 31, 2012.

11 **SEC. 1403. DELAY OF LIMITATION ON HEALTH FLEXIBLE**
12 **SPENDING ARRANGEMENTS UNDER CAFETERIA PLANS.**
13

14 (a) IN GENERAL.—Section 10902(b) of the Patient
15 Protection and Affordable Care Act is amended by strik-
16 ing “December 31, 2010” and inserting “December 31,
17 2012”.

18 (b) INFLATION ADJUSTMENT.—Paragraph (2) of sec-
19 tion 125(i) of the Internal Revenue Code of 1986, as
20 added by section 9005 of the Patient Protection and Af-
21 fordable Care Act and amended by section 10902 of such
22 Act, is amended—

23 (1) in the matter preceding subparagraph (A),
24 by striking “December 31, 2011” and inserting
25 “December 31, 2013”, and

1 (2) in subparagraph (B), by striking “2010”
 2 and inserting “2012”.

3 **SEC. 1404. BRAND NAME PHARMACEUTICALS.**

4 (a) IN GENERAL.—Section 9008 of the Patient Pro-
 5 tection and Affordable Care Act is amended—

6 (1) in subsection (a)(1), by striking “2009” and
 7 inserting “2010”,

8 (2) in subsection (b)—

9 (A) by striking “\$2,300,000,000” in para-
 10 graph (1) and inserting “the applicable
 11 amount”, and

12 (B) by adding at the end the following new
 13 paragraph:

14 “(4) APPLICABLE AMOUNT.—For purposes of
 15 paragraph (1), the applicable amount shall be deter-
 16 mined in accordance with the following table:

“Calendar year	Applicable amount
2011	\$2,500,000,000
2012	\$3,000,000,000
2013	\$3,000,000,000
2014	\$3,000,000,000
2015	\$3,000,000,000
2016	\$3,000,000,000
2017	\$3,500,000,000.
2018	\$4,200,000,000
2019 and thereafter	\$2,800,000,000.”,

17 (3) in subsection (d), by adding at the end the
 18 following new paragraph:

19 “(3) JOINT AND SEVERAL LIABILITY.—If more
 20 than one person is liable for payment of the fee

1 under subsection (a) with respect to a single covered
2 entity by reason of the application of paragraph (2),
3 all such persons shall be jointly and severally liable
4 for payment of such fee.”, and

5 (4) by striking subsection (j) and inserting the
6 following new subsection:

7 “(j) EFFECTIVE DATE.—This section shall apply to
8 calendar years beginning after December 31, 2010.”.

9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall take effect as if included in section 9008
11 of the Patient Protection and Affordable Care Act.

12 **SEC. 1405. EXCISE TAX ON MEDICAL DEVICE MANUFACTUR-**
13 **ERS.**

14 (a) IN GENERAL.—Chapter 32 of the Internal Rev-
15 enue Code of 1986 is amended—

16 (1) by inserting after subchapter D the fol-
17 lowing new subchapter:

18 **“Subchapter E—Medical Devices**

“Sec. 4191. Medical devices.

19 **“SEC. 4191. MEDICAL DEVICES.**

20 “(a) IN GENERAL.—There is hereby imposed on the
21 sale of any taxable medical device by the manufacturer,
22 producer, or importer a tax equal to 2.9 percent of the
23 price for which so sold.

1 “(b) TAXABLE MEDICAL DEVICE.—For purposes of
2 this section—

3 “(1) IN GENERAL.—The term ‘taxable medical
4 device’ means any device (as defined in section
5 201(h) of the Federal Food, Drug, and Cosmetic
6 Act) intended for humans.

7 “(2) EXEMPTIONS.—Such term shall not in-
8 clude—

9 “(A) devices classified in class I under sec-
10 tion 513 of such Act,

11 “(B) eyeglasses,

12 “(C) contact lenses,

13 “(D) hearing aids, and

14 “(E) any other medical device determined
15 by the Secretary to be of a type which is gen-
16 erally purchased by the general public at retail
17 for individual use.”, and

18 (2) by inserting after the item relating to sub-
19 chapter D in the table of subchapters for such chap-
20 ter the following new item:

 “SUBCHAPTER E. MEDICAL DEVICES.”.

21 (b) CERTAIN EXEMPTIONS NOT TO APPLY.—

22 (1) Section 4221(a) of the Internal Revenue
23 Code of 1986 is amended by adding at the end the
24 following new sentence: “In the case of the tax im-

1 posed by section 4191, paragraphs (3), (4), (5), and
2 (6) shall not apply.”.

3 (2) Section 6416(b)(2) of such Code is amend-
4 ed by adding at the end the following: “In the case
5 of the tax imposed by section 4191, subparagraphs
6 (B), (C), (D), and (E) shall not apply.”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to sales after December 31, 2012.

9 (d) REPEAL OF SECTION 9009 OF THE PATIENT
10 PROTECTION AND AFFORDABLE CARE ACT.—Section
11 9009 of the Patient Protection and Affordable Care Act,
12 as amended by section 10904 of such Act, is repealed ef-
13 fective as of the date of enactment of that Act.

14 **SEC. 1406. HEALTH INSURANCE PROVIDERS.**

15 (a) IN GENERAL.—Section 9010 of the Patient Pro-
16 tection and Affordable Care Act, as amended by section
17 10905 of such Act, is amended—

18 (1) in subsection (a)(1), by striking “2010” and
19 inserting “2013”,

20 (2) in subsection (b)(2)—

21 (A) by striking “For purposes of para-
22 graph (1), the net premiums” and inserting
23 “For purposes of paragraph (1)—

24 “(A) IN GENERAL.—The net premiums”,
25 and

1 (B) by adding at the end the following sub-
2 paragraph:

3 “(B) PARTIAL EXCLUSION FOR CERTAIN
4 EXEMPT ACTIVITIES.—After the application of
5 subparagraph (A), only 50 percent of the re-
6 maining net premiums written with respect to
7 health insurance for any United States health
8 risk that are attributable to the activities (other
9 than activities of an unrelated trade or business
10 as defined in section 513 of the Internal Rev-
11 enue Code of 1986) of any covered entity quali-
12 fying under paragraph (3), (4), (26), or (29) of
13 section 501(c) of such Code and exempt from
14 tax under section 501(a) of such Code shall be
15 taken into account.”,

16 (3) in subsection (c)—

17 (A) by inserting “during the calendar year
18 in which the fee under this section is due” in
19 paragraph (1) after “risk”,

20 (B) in paragraph (2), by striking subpara-
21 graphs (C), (D), and (E) and inserting the fol-
22 lowing new subparagraphs:

23 “(C) any entity—

24 “(i) which is incorporated as a non-
25 profit corporation under a State law,

1 “(ii) no part of the net earnings of
2 which inures to the benefit of any private
3 shareholder or individual, no substantial
4 part of the activities of which is carrying
5 on propaganda, or otherwise attempting, to
6 influence legislation (except as otherwise
7 provided in section 501(h) of the Internal
8 Revenue Code of 1986), and which does
9 not participate in, or intervene in (includ-
10 ing the publishing or distributing of state-
11 ments), any political campaign on behalf of
12 (or in opposition to) any candidate for
13 public office, and

14 “(iii) more than 80 percent of the
15 gross revenues of which is received from
16 government programs that target low-in-
17 come, elderly, or disabled populations
18 under titles XVIII, XIX, and XXI of the
19 Social Security Act, and

20 “(D) any entity which is described in sec-
21 tion 501(c)(9) of such Code and which is estab-
22 lished by an entity (other than by an employer
23 or employers) for purposes of providing health
24 care benefits.”,

1 (C) in paragraph (3)(A), by striking “sub-
 2 paragraph (C)(i)(I), (D)(i)(I), or (E)(i)” and
 3 inserting “subparagraph (C) or (D)”, and
 4 (D) by adding at the end the following new
 5 paragraph:

6 “(4) JOINT AND SEVERAL LIABILITY.—If more
 7 than one person is liable for payment of the fee
 8 under subsection (a) with respect to a single covered
 9 entity by reason of the application of paragraph (3),
 10 all such persons shall be jointly and severally liable
 11 for payment of such fee.”,

12 (4) by striking subsection (e) and inserting the
 13 following:

14 “(e) APPLICABLE AMOUNT.—For purposes of sub-
 15 section (b)(1)—

16 “(1) YEARS BEFORE 2019.—In the case of cal-
 17 endar years beginning before 2019, the applicable
 18 amount shall be determined in accordance with the
 19 following table:

“Calendar year	Applicable amount
2014	\$8,000,000,000
2015	\$11,300,000,000
2016	\$11,300,000,000
2017	\$13,900,000,000
2018	\$14,300,000,000.

20 “(2) YEARS AFTER 2018.—In the case of any
 21 calendar year beginning after 2018, the applicable
 22 amount shall be the applicable amount for the pre-

1 ceding calendar year increased by the rate of pre-
2 mium growth (within the meaning of section
3 36B(b)(3)(A)(ii) of the Internal Revenue Code of
4 1986) for such preceding calendar year.”,

5 (5) in subsection (g), by adding at the end the
6 following new paragraphs:

7 “(3) ACCURACY-RELATED PENALTY.—

8 “(A) IN GENERAL.—In the case of any un-
9 derstatement of a covered entity’s net premiums
10 written with respect to health insurance for any
11 United States health risk for any calendar year,
12 there shall be paid by the covered entity making
13 such understatement, an amount equal to the
14 excess of—

15 “(i) the amount of the covered entity’s
16 fee under this section for the calendar year
17 the Secretary determines should have been
18 paid in the absence of any such under-
19 statement, over

20 “(ii) the amount of such fee the Sec-
21 retary determined based on such under-
22 statement.

23 “(B) UNDERSTATEMENT.—For purposes
24 of this paragraph, an understatement of a cov-
25 ered entity’s net premiums written with respect

1 to health insurance for any United States
2 health risk for any calendar year is the dif-
3 ference between the amount of such net pre-
4 miums written as reported on the return filed
5 by the covered entity under paragraph (1) and
6 the amount of such net premiums written that
7 should have been reported on such return.

8 “(C) TREATMENT OF PENALTY.—The pen-
9 alty imposed under subparagraph (A) shall be
10 subject to the provisions of subtitle F of the In-
11 ternal Revenue Code of 1986 that apply to as-
12 sessable penalties imposed under chapter 68 of
13 such Code.

14 “(4) TREATMENT OF INFORMATION.—Section
15 6103 of the Internal Revenue Code of 1986 shall not
16 apply to any information reported under this sub-
17 section.”, and

18 (6) by striking subsection (j) and inserting the
19 following new subsection:

20 “(j) EFFECTIVE DATE.—This section shall apply to
21 calendar years beginning after December 31, 2013.”.

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall take effect as if included in section 9010
24 of the Patient Protection and Affordable Care Act.

1 **SEC. 1407. DELAY OF ELIMINATION OF DEDUCTION FOR EX-**
2 **PENSES ALLOCABLE TO MEDICARE PART D**
3 **SUBSIDY.**

4 Section 9012(b) of the Patient Protection and Af-
5 fordable Care Act is amended by striking “2010” and in-
6 serting “2012”.

7 **SEC. 1408. ELIMINATION OF UNINTENDED APPLICATION OF**
8 **CELLULOSIC BIOFUEL PRODUCER CREDIT.**

9 (a) **IN GENERAL.**—Section 40(b)(6)(E) of the Inter-
10 nal Revenue Code of 1986 is amended by adding at the
11 end the following new clause:

12 “(iii) **EXCLUSION OF UNPROCESSED**
13 **FUELS.**—The term ‘cellulosic biofuel’ shall
14 not include any fuel if—

15 “(I) more than 4 percent of such
16 fuel (determined by weight) is any
17 combination of water and sediment, or

18 “(II) the ash content of such fuel
19 is more than 1 percent (determined by
20 weight).”.

21 (b) **EFFECTIVE DATE.**—The amendment made by
22 this section shall apply to fuels sold or used on or after
23 January 1, 2010.

1 **SEC. 1409. CODIFICATION OF ECONOMIC SUBSTANCE DOC-**
2 **TRINE AND PENALTIES.**

3 (a) IN GENERAL.—Section 7701 of the Internal Rev-
4 enue Code of 1986 is amended by redesignating subsection
5 (o) as subsection (p) and by inserting after subsection (n)
6 the following new subsection:

7 “(o) CLARIFICATION OF ECONOMIC SUBSTANCE
8 DOCTRINE.—

9 “(1) APPLICATION OF DOCTRINE.—In the case
10 of any transaction to which the economic substance
11 doctrine is relevant, such transaction shall be treated
12 as having economic substance only if—

13 “(A) the transaction changes in a mean-
14 ingful way (apart from Federal income tax ef-
15 fects) the taxpayer’s economic position, and

16 “(B) the taxpayer has a substantial pur-
17 pose (apart from Federal income tax effects)
18 for entering into such transaction.

19 “(2) SPECIAL RULE WHERE TAXPAYER RELIES
20 ON PROFIT POTENTIAL.—

21 “(A) IN GENERAL.—The potential for
22 profit of a transaction shall be taken into ac-
23 count in determining whether the requirements
24 of subparagraphs (A) and (B) of paragraph (1)
25 are met with respect to the transaction only if
26 the present value of the reasonably expected

1 pre-tax profit from the transaction is substan-
2 tial in relation to the present value of the ex-
3 pected net tax benefits that would be allowed if
4 the transaction were respected.

5 “(B) TREATMENT OF FEES AND FOREIGN
6 TAXES.—Fees and other transaction expenses
7 shall be taken into account as expenses in de-
8 termining pre-tax profit under subparagraph
9 (A). The Secretary shall issue regulations re-
10 quiring foreign taxes to be treated as expenses
11 in determining pre-tax profit in appropriate
12 cases.

13 “(3) STATE AND LOCAL TAX BENEFITS.—For
14 purposes of paragraph (1), any State or local income
15 tax effect which is related to a Federal income tax
16 effect shall be treated in the same manner as a Fed-
17 eral income tax effect.

18 “(4) FINANCIAL ACCOUNTING BENEFITS.—For
19 purposes of paragraph (1)(B), achieving a financial
20 accounting benefit shall not be taken into account as
21 a purpose for entering into a transaction if the ori-
22 gin of such financial accounting benefit is a reduc-
23 tion of Federal income tax.

24 “(5) DEFINITIONS AND SPECIAL RULES.—For
25 purposes of this subsection—

1 “(A) ECONOMIC SUBSTANCE DOCTRINE.—

2 The term ‘economic substance doctrine’ means
3 the common law doctrine under which tax bene-
4 fits under subtitle A with respect to a trans-
5 action are not allowable if the transaction does
6 not have economic substance or lacks a business
7 purpose.

8 “(B) EXCEPTION FOR PERSONAL TRANS-
9 ACTIONS OF INDIVIDUALS.—In the case of an
10 individual, paragraph (1) shall apply only to
11 transactions entered into in connection with a
12 trade or business or an activity engaged in for
13 the production of income.

14 “(C) DETERMINATION OF APPLICATION OF
15 DOCTRINE NOT AFFECTED.—The determination
16 of whether the economic substance doctrine is
17 relevant to a transaction shall be made in the
18 same manner as if this subsection had never
19 been enacted.

20 “(D) TRANSACTION.—The term ‘trans-
21 action’ includes a series of transactions.”.

22 (b) PENALTY FOR UNDERPAYMENTS ATTRIBUTABLE
23 TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE.—

1 (1) IN GENERAL.—Subsection (b) of section
2 6662 is amended by inserting after paragraph (5)
3 the following new paragraph:

4 “(6) Any disallowance of claimed tax benefits
5 by reason of a transaction lacking economic sub-
6 stance (within the meaning of section 7701(o)) or
7 failing to meet the requirements of any similar rule
8 of law.”.

9 (2) INCREASED PENALTY FOR NONDISCLOSED
10 TRANSACTIONS.—Section 6662 is amended by add-
11 ing at the end the following new subsection:

12 “(i) INCREASE IN PENALTY IN CASE OF NONDIS-
13 CLOSED NONECONOMIC SUBSTANCE TRANSACTIONS.—

14 “(1) IN GENERAL.—In the case of any portion
15 of an underpayment which is attributable to one or
16 more nondisclosed noneconomic substance trans-
17 actions, subsection (a) shall be applied with respect
18 to such portion by substituting ‘40 percent’ for ‘20
19 percent’.

20 “(2) NONDISCLOSED NONECONOMIC SUB-
21 STANCE TRANSACTIONS.—For purposes of this sub-
22 section, the term ‘nondisclosed noneconomic sub-
23 stance transaction’ means any portion of a trans-
24 action described in subsection (b)(6) with respect to
25 which the relevant facts affecting the tax treatment

1 are not adequately disclosed in the return nor in a
2 statement attached to the return.

3 “(3) SPECIAL RULE FOR AMENDED RE-
4 TURNS.—In no event shall any amendment or sup-
5 plement to a return of tax be taken into account for
6 purposes of this subsection if the amendment or sup-
7 plement is filed after the earlier of the date the tax-
8 payer is first contacted by the Secretary regarding
9 the examination of the return or such other date as
10 is specified by the Secretary.”.

11 (3) CONFORMING AMENDMENT.—Subparagraph
12 (B) of section 6662A(e)(2) is amended—

13 (A) by striking “section 6662(h)” and in-
14 serting “subsections (h) or (i) of section 6662”;
15 and

16 (B) by striking “GROSS VALUATION
17 MISSTATEMENT PENALTY” in the heading and
18 inserting “CERTAIN INCREASED UNDER-
19 PAYMENT PENALTIES”.

20 (c) REASONABLE CAUSE EXCEPTION NOT APPLICA-
21 BLE TO NONECONOMIC SUBSTANCE TRANSACTIONS.—

22 (1) REASONABLE CAUSE EXCEPTION FOR UN-
23 DERPAYMENTS.—Subsection (c) of section 6664 is
24 amended—

1 (A) by redesignating paragraphs (2) and
2 (3) as paragraphs (3) and (4), respectively;

3 (B) by striking “paragraph (2)” in para-
4 graph (4)(A), as so redesignated, and inserting
5 “paragraph (3)”; and

6 (C) by inserting after paragraph (1) the
7 following new paragraph:

8 “(2) EXCEPTION.—Paragraph (1) shall not
9 apply to any portion of an underpayment which is
10 attributable to one or more transactions described in
11 section 6662(b)(6).”.

12 (2) REASONABLE CAUSE EXCEPTION FOR RE-
13 PORTABLE TRANSACTION UNDERSTATEMENTS.—
14 Subsection (d) of section 6664 is amended—

15 (A) by redesignating paragraphs (2) and
16 (3) as paragraphs (3) and (4), respectively;

17 (B) by striking “paragraph (2)(C)” in
18 paragraph (4), as so redesignated, and inserting
19 “paragraph (3)(C)”; and

20 (C) by inserting after paragraph (1) the
21 following new paragraph:

22 “(2) EXCEPTION.—Paragraph (1) shall not
23 apply to any portion of a reportable transaction un-
24 derstatement which is attributable to one or more
25 transactions described in section 6662(b)(6).”.

1 (d) APPLICATION OF PENALTY FOR ERRONEOUS
2 CLAIM FOR REFUND OR CREDIT TO NONECONOMIC SUB-
3 STANCE TRANSACTIONS.—Section 6676 is amended by re-
4 designating subsection (c) as subsection (d) and inserting
5 after subsection (b) the following new subsection:

6 “(c) NONECONOMIC SUBSTANCE TRANSACTIONS
7 TREATED AS LACKING REASONABLE BASIS.—For pur-
8 poses of this section, any excessive amount which is attrib-
9 utable to any transaction described in section 6662(b)(6)
10 shall not be treated as having a reasonable basis.”.

11 (e) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as otherwise pro-
13 vided in this subsection, the amendments made by
14 this section shall apply to transactions entered into
15 after the date of the enactment of this Act.

16 (2) UNDERPAYMENTS.—The amendments made
17 by subsections (b) and (c)(1) shall apply to under-
18 payments attributable to transactions entered into
19 after the date of the enactment of this Act.

20 (3) UNDERSTATEMENTS.—The amendments
21 made by subsection (c)(2) shall apply to understate-
22 ments attributable to transactions entered into after
23 the date of the enactment of this Act.

24 (4) REFUNDS AND CREDITS.—The amendment
25 made by subsection (d) shall apply to refunds and

1 credits attributable to transactions entered into after
2 the date of the enactment of this Act.

3 **SEC. 1410. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
4 **TAXES.**

5 The percentage under paragraph (1) of section
6 202(b) of the Corporate Estimated Tax Shift Act of 2009
7 in effect on the date of the enactment of this Act is in-
8 creased by 14.5 percentage points.

9 **SEC. 1411. NO IMPACT ON SOCIAL SECURITY TRUST FUNDS.**

10 (a) **ESTIMATE OF SECRETARY.**—The Secretary of the
11 Treasury shall annually estimate the impact that the en-
12 actment of this Act has on the income and balances of
13 the trust funds established under section 201 of the Social
14 Security Act (42 U.S.C. 401).

15 (b) **TRANSFER OF FUNDS.**—If, under subsection (a),
16 the Secretary of the Treasury estimates that the enact-
17 ment of this Act has a negative impact on the income and
18 balances of the trust funds established under section 201
19 of the Social Security Act (42 U.S.C. 401), the Secretary
20 shall transfer, not less frequently than quarterly, from the
21 general revenues of the Federal Government an amount
22 sufficient so as to ensure that the income and balances
23 of such trust funds are not reduced as a result of the en-
24 actment of this Act.

1 **Subtitle F—Other Provisions**

2 **SEC. 1501. COMMUNITY COLLEGE AND CAREER TRAINING**

3 **GRANT PROGRAM.**

4 There are authorized to be appropriated, and there
5 are appropriated, \$500,000,000, for each of the fiscal
6 years 2011, 2012, 2013, and 2014, to award Community
7 College and Career Training Grants authorized under sec-
8 tion 278 of the Trade Act of 1974 (19 U.S.C. 2372), pro-
9 vided that—

10 (1) the limitations contained in subsection
11 (a)(2) of such section shall not apply for such fiscal
12 years;

13 (2) in addition to workers eligible for training
14 under section 236 of the Trade Act of 1974 (19
15 U.S.C. 2296) such Grants may be used to develop,
16 offer, or improve an educational or career training
17 program that is suited to individuals who are, or
18 may become, eligible for unemployment compensa-
19 tion as defined in section 85(b) of the Internal Rev-
20 enue Code of 1986; and

21 (3) each State shall receive not less than 0.5
22 percent of the amount appropriated pursuant to this
23 section for each such fiscal year.

1 “(ii) the amount of the increase cal-
2 culated under paragraph (8)(B) for that
3 year, less

4 “(iii) an amount equal to the amount
5 determined to be the expected family con-
6 tribution with respect to that student for
7 that year.”; and

8 (2) in paragraph (8)—

9 (A) in subparagraph (A)—

10 (i) in clause (ii), by striking the semi-
11 colon and inserting “; and”; and

12 (ii) by striking clauses (iii) through
13 (x) and inserting the following:

14 “(iii) such sums as may be necessary
15 for fiscal year 2010 and each subsequent
16 fiscal year to provide the amount of in-
17 crease of the maximum Federal Pell Grant
18 required by clauses (ii) and (iii) of sub-
19 paragraph (B).”;

20 (B) in subparagraph (B)—

21 (i) in clause (ii), by striking “and
22 2011–2012” and inserting “, 2011–2012,
23 and 2012–2013”; and

24 (ii) by striking clause (iii) and insert-
25 ing the following:

1 “(iii) the amount determined under
2 subparagraph (C) for each succeeding
3 award year.”;

4 (C) by striking subparagraph (C) and in-
5 serting the following:

6 “(C) ADJUSTMENT AMOUNTS.—

7 “(i) AWARD YEAR 2013–2014.—For
8 award year 2013–2014, the amount deter-
9 mined under this subparagraph for pur-
10 poses of subparagraph (B)(iii) shall be
11 equal to—

12 “(I) \$5,550 or the total max-
13 imum Federal Pell Grant for the pre-
14 ceding award year (as determined
15 under clause (v)(II)), whichever is
16 greater, increased by a percentage
17 equal to the annual adjustment per-
18 centage for award year 2013–2014;
19 reduced by

20 “(II) \$4,860 or the maximum
21 Federal Pell Grant for which a stu-
22 dent was eligible for the preceding
23 award year, as specified in the last en-
24 acted appropriation Act applicable to
25 that year, whichever is greater; and

1 “(III) rounded to the nearest \$5.

2 “(ii) AWARD YEARS 2014–2015
3 THROUGH 2017–2018.—For each of the
4 award years 2014–2015 through 2017–
5 2018, the amount determined under this
6 subparagraph for purposes of subpara-
7 graph (B)(iii) shall be equal to—

8 “(I) the total maximum Federal
9 Pell Grant for the preceding award
10 year (as determined under clause
11 (v)(II)), increased by a percentage
12 equal to the annual adjustment per-
13 centage for the award year for which
14 the amount under this subparagraph
15 is being determined; reduced by

16 “(II) \$4,860 or the maximum
17 Federal Pell Grant for which a stu-
18 dent was eligible for the preceding
19 award year, as specified in the last en-
20 acted appropriation Act applicable to
21 that year, whichever is greater; and

22 “(III) rounded to the nearest \$5.

23 “(iii) SUBSEQUENT AWARD YEARS.—
24 For award year 2018–2019 and each sub-
25 sequent award year, the amount deter-

1 mined under this subparagraph for pur-
2 poses of subparagraph (B)(iii) shall be
3 equal to the amount determined under
4 clause (ii) for award year 2017–2018.

5 “(iv) LIMITATION ON DECREASES.—
6 Notwithstanding clauses (i), (ii), and (iii),
7 if the amount determined under clause (i),
8 (ii), or (iii) for a particular award year is
9 less than the amount determined under
10 this paragraph for the award year pre-
11 ceding that particular award year, then the
12 amount determined under such clause for
13 that particular award year shall be the
14 amount determined under this paragraph
15 for the preceding award year.

16 “(v) DEFINITIONS.—For purposes of
17 this subparagraph—

18 “(I) the term ‘annual adjustment
19 percentage’ as applied to an award
20 year, is equal to the estimated per-
21 centage change in the Consumer Price
22 Index (as determined by the Sec-
23 retary, using the definition in section
24 478(f)) for the most recent calendar

1 year ending prior to the beginning of
2 that award year; and

3 “(II) the term ‘total maximum
4 Federal Pell Grant’ as applied to a
5 preceding award year, is equal to the
6 sum of—

7 “(aa) the maximum Federal
8 Pell Grant for which a student is
9 eligible during an award year, as
10 specified in the last enacted ap-
11 propriation Act applicable to that
12 preceding award year; and

13 “(bb) the amount of the in-
14 crease in the maximum Federal
15 Pell Grant required by this para-
16 graph for that preceding award
17 year.”;

18 (D) by striking subparagraph (E); and

19 (E) by redesignating subparagraph (F) as
20 subparagraph (E).

21 (b) CONFORMING AMENDMENTS.—Title IV (20
22 U.S.C. 1070 et seq.) is further amended—

23 (1) in section 401(b) (20 U.S.C. 1070a(b))—

24 (A) in paragraph (4)—

1 (i) by striking “maximum basic grant
2 level specified in the appropriate appro-
3 priation Act” and inserting “maximum
4 amount of a Federal Pell Grant award de-
5 termined under paragraph (2)(A)”; and

6 (ii) by striking “such level” each place
7 it appears and inserting “such Federal Pell
8 Grant amount” in each such place; and

9 (B) in paragraph (6), by striking “the
10 grant level specified in the appropriate Appro-
11 priation Act for this subpart for such year” and
12 inserting “the maximum amount of a Federal
13 Pell Grant award determined under paragraph
14 (2)(A), for which a student is eligible during
15 such award year”;

16 (2) in section 402D(d)(1) (20 U.S.C. 1070a-
17 14(d)(1)), by striking “exceed the maximum” and
18 all that follows through “Grant, for” and inserting
19 “exceed the Federal Pell Grant amount, determined
20 under section 401(b)(2)(A), for which a student is
21 eligible, or be less than the minimum Federal Pell
22 Grant amount described in section 401(b)(4), for”;

23 (3) in section 435(a)(5)(A)(i)(I) (20 U.S.C.
24 1085(a)(5)(A)(i)(I)), by striking “one-half the max-
25 imum Federal Pell Grant award for which a student

1 would be eligible” and inserting “one-half the Fed-
2 eral Pell Grant amount, determined under section
3 401(b)(2)(A), for which a student would be eligible”;
4 (4) in section 483(e)(3)(A)(ii) (20 U.S.C.
5 1090(e)(3)(A)(ii)), by striking “based on the max-
6 imum Federal Pell Grant award at the time of appli-
7 cation” and inserting “based on the Federal Pell
8 Grant amount, determined under section
9 401(b)(2)(A), for which a student is eligible at the
10 time of application”;
11 (5) in section 485E(b)(1)(A) (20 U.S.C.
12 1092f(b)(1)(A)); by striking “of such students’ po-
13 tential eligibility for a maximum Federal Pell Grant
14 under subpart 1 of part A” and inserting “of such
15 students’ potential eligibility for the Federal Pell
16 Grant amount, determined under section
17 401(b)(2)(A), for which the student would be eligi-
18 ble”; and
19 (6) in section 894(f)(2)(C)(ii)(I) (20 U.S.C.
20 1161y(f)(2)(C)(ii)(I)), by striking “the maximum
21 Federal Pell Grant for each award year” and insert-
22 ing “the Federal Pell Grant amount, determined
23 under section 401(b)(2)(A), for which a student may
24 be eligible for each award year”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 subsections (a) and (b) shall take effect on July 1, 2010.

3 **SEC. 2102. STUDENT FINANCIAL ASSISTANCE.**

4 (a) IN GENERAL.—There are authorized to be appro-
5 priated, and there are appropriated, to carry out subpart
6 1 of part A of title IV of the Higher Education Act of
7 1965 (20 U.S.C. 1070 et seq.) (in addition to any other
8 amounts appropriated to carry out such subpart and out
9 of any money in the Treasury not otherwise appropriated)
10 \$13,500,000,000.

11 (b) AVAILABILITY OF FUNDS.—Funds appropriated
12 under this section shall be available as of the date of en-
13 actment of this subtitle and shall remain available until
14 September 30, 2012.

15 **SEC. 2103. COLLEGE ACCESS CHALLENGE GRANT PRO-**
16 **GRAM.**

17 Section 781 (20 U.S.C. 1141) is amended—

18 (1) in the first sentence of subsection (a), by
19 striking “\$66,000,000” and all that follows through
20 the period and inserting “\$150,000,000 for each of
21 the fiscal years 2010 through 2014. The authority
22 to award grants under this section shall expire at
23 the end of fiscal year 2014.”; and

24 (2) in subsection (c)(2), by striking “0.5 per-
25 cent” and inserting “1.0 percent”.

1 **SEC. 2104. INVESTMENT IN HISTORICALLY BLACK COL-**
2 **LEGES AND UNIVERSITIES AND MINORITY-**
3 **SERVING INSTITUTIONS.**

4 Section 371(b)(1)(A) (20 U.S.C. 1067q(b)(1)(A)) is
5 amended by striking “and 2009.” and all that follows and
6 inserting “through 2019. The authority to award grants
7 under this section shall expire at the end of fiscal year
8 2019.”.

9 **PART II—STUDENT LOAN REFORM**

10 **SEC. 2201. TERMINATION OF FEDERAL FAMILY EDUCATION**
11 **LOAN APPROPRIATIONS.**

12 Section 421 (20 U.S.C. 1071) is amended—

13 (1) in subsection (b), in the first sentence of
14 the matter following paragraph (6), by inserting “,
15 except that no sums may be expended after June 30,
16 2010, with respect to loans under this part for which
17 the first disbursement is after such date” after “ex-
18 pended”; and

19 (2) by adding at the end the following new sub-
20 section:

21 “(d) **TERMINATION OF AUTHORITY TO MAKE OR IN-**
22 **SURE NEW LOANS.**—Notwithstanding paragraphs (1)
23 through (6) of subsection (b) or any other provision of
24 law—

1 (3) in paragraph (2), by inserting “and before
2 July 1, 2010,” after “July 1, 2006,”;

3 (4) in paragraph (3), by inserting “and that
4 was disbursed before July 1, 2010,” after “July 1,
5 2006,”; and

6 (5) in paragraph (4)—

7 (A) in the matter preceding subparagraph
8 (A), by striking “July 1, 2012” and inserting
9 “July 1, 2010”; and

10 (B) by repealing subparagraphs (D) and
11 (E).

12 **SEC. 2204. TERMINATION OF FEDERAL PAYMENTS TO RE-**
13 **DUCE STUDENT INTEREST COSTS.**

14 (a) HIGHER EDUCATION ACT OF 1965.—Section 428
15 (20 U.S.C. 1078) is amended—

16 (1) in subsection (a)—

17 (A) in paragraph (1), in the matter pre-
18 ceding subparagraph (A), by inserting “for
19 which the first disbursement is made before
20 July 1, 2010, and” after “eligible institution”;
21 and

22 (B) in paragraph (5), by striking “Sep-
23 tember 30, 2014,” and all that follows through
24 the period and inserting “June 30, 2010.”;

25 (2) in subsection (b)(1)—

1 (A) in subparagraph (G)(ii), by inserting
2 “and before July 1, 2010,” after “July 1,
3 2006,”; and

4 (B) in subparagraph (H)(ii), by inserting
5 “and that are first disbursed before July 1,
6 2010,” after “July 1, 2006,”;

7 (3) in subsection (f)(1)(A)(ii)—

8 (A) by striking “during fiscal years begin-
9 ning”; and

10 (B) by inserting “and first disbursed be-
11 fore July 1, 2010,” after “October 1, 2003,”;
12 and

13 (4) in subsection (j)(1), by inserting “, before
14 July 1, 2010,” after “section 435(d)(1)(D) of this
15 Act shall”.

16 (b) COLLEGE COST REDUCTION AND ACCESS ACT.—
17 Section 303 of the College Cost Reduction and Access Act
18 (Public Law 110–84) is repealed.

19 **SEC. 2205. TERMINATION OF FFEL PLUS LOANS.**

20 Section 428B(a)(1) (20 U.S.C. 1078–2(a)(1)) is
21 amended by striking “A graduate” and inserting “Prior
22 to July 1, 2010, a graduate”.

23 **SEC. 2206. FEDERAL CONSOLIDATION LOANS.**

24 (a) IN GENERAL.—Section 428C (20 U.S.C. 1078–
25 3) is amended—

1 (1) in subsection (a)(4)(A), by inserting “, and
2 first disbursed before July 1, 2010” after “under
3 this part”;

4 (2) in subsection (b)—

5 (A) in paragraph (1)(E), by inserting be-
6 fore the semicolon “, and before July 1, 2010”;
7 and

8 (B) in paragraph (5), by striking “In the
9 event that” and inserting “If, before July 1,
10 2010,”;

11 (3) in subsection (c)(1)—

12 (A) in subparagraph (A)(ii), by inserting
13 “and that is disbursed before July 1, 2010,”
14 after “2006,”; and

15 (B) in subparagraph (C), by inserting
16 “and disbursed before July 1, 2010,” after
17 “1994,”; and

18 (4) in subsection (e), by striking “September
19 30, 2014.” and inserting “June 30, 2010. No loan
20 may be made under this section for which the dis-
21 bursement is on or after July 1, 2010.”.

22 (b) TEMPORARY LOAN CONSOLIDATION AUTHOR-
23 ITY.—Part D of title IV (20 U.S.C. 1087a et seq.) is
24 amended by inserting after section 459A (20 U.S.C.
25 1087i) the following:

1 **“SEC. 459B. TEMPORARY LOAN CONSOLIDATION AUTHOR-**
2 **ITY.**

3 “(a) TEMPORARY LOAN CONSOLIDATION AUTHOR-
4 ITY.—

5 “(1) IN GENERAL.—A borrower who has 1 or
6 more loans in 2 or more of the categories described
7 in paragraph (2), and who has not yet entered re-
8 payment on 1 or more of those loans in any of the
9 categories, may consolidate all of the loans of the
10 borrower that are described in paragraph (2) into a
11 Federal Direct Consolidation Loan during the period
12 described in paragraph (3).

13 “(2) CATEGORIES OF LOANS THAT MAY BE
14 CONSOLIDATED.—The categories of loans that may
15 be consolidated under paragraph (1) are—

16 “(A) loans made under this part;

17 “(B) loans purchased by the Secretary
18 pursuant to section 459A; and

19 “(C) loans made under part B that are
20 held by an eligible lender, as such term is de-
21 fined in section 435(d).

22 “(3) TIME PERIOD IN WHICH LOANS MAY BE
23 CONSOLIDATED.—The Secretary may make a Fed-
24 eral Direct Consolidation Loan under this section to
25 a borrower whose application for such Federal Di-

1 rect Consolidation Loan is received on or after July
2 1, 2010, and before July 1, 2011.

3 “(b) TERMS OF LOANS.—A Federal Direct Consoli-
4 dation Loan made under this section shall have the same
5 terms and conditions as a Federal Direct Consolidation
6 Loan made under section 455(g), except that—

7 “(1) in determining the applicable rate of inter-
8 est on the Federal Direct Consolidation Loan made
9 under this section (other than on a Federal Direct
10 Consolidation Loan described in paragraph (2)), sec-
11 tion 427A(l)(3) shall be applied without rounding
12 the weighted average of the interest rate on the
13 loans consolidated to the nearest higher one-eighth
14 of 1 percent as described in subparagraph (A) of
15 section 427A(l)(3); and

16 “(2) if a Federal Direct Consolidation Loan
17 made under this section that repays a loan which is
18 subject to an interest rate determined under section
19 427A(g)(2), (j)(2), or (k)(2), then the interest rate
20 for such Federal Direct Consolidation Loan shall be
21 calculated—

22 “(A) by using the applicable rate of inter-
23 est described in section 427A(g)(2), (j)(2), or
24 (k)(2), respectively; and

1 “(B) in accordance with section
2 427A(1)(3).”.

3 **SEC. 2207. TERMINATION OF UNSUBSIDIZED STAFFORD**
4 **LOANS FOR MIDDLE-INCOME BORROWERS.**

5 Section 428H (20 U.S.C. 1078–8) is amended—

6 (1) in subsection (a), by inserting “that are
7 first disbursed before July 1, 2010,” after “under
8 this part”;

9 (2) in subsection (b)—

10 (A) by striking “Any student” and insert-
11 ing “Prior to July 1, 2010, any student”; and

12 (B) by inserting “for which the first dis-
13 bursement is made before such date” after “un-
14 subsidized Federal Stafford Loan”; and

15 (3) in subsection (h), by inserting “and that are
16 first disbursed before July 1, 2010,” after “July 1,
17 2006,”.

18 **SEC. 2208. TERMINATION OF SPECIAL ALLOWANCES.**

19 Section 438 (20 U.S.C. 1087–1) is amended—

20 (1) in subsection (b)(2)(I)—

21 (A) in the subclause heading, by inserting
22 “, AND BEFORE JULY 1, 2010” after “2000”;

23 (B) in clause (i), by inserting “and before
24 July 1, 2010,” after “2000,”;

1 (C) in clause (ii)(II), by inserting “and be-
2 fore July 1, 2010,” after “2006,”;

3 (D) in clause (iii), by inserting “and before
4 July 1, 2010,” after “2000,”;

5 (E) in clause (iv), by inserting “and that
6 is disbursed before July 1, 2010,” after
7 “2000,”;

8 (F) in clause (v)(I), by inserting “and be-
9 fore July 1, 2010,” after “2006,”; and

10 (G) in clause (vi)—

11 (i) in the clause heading, by inserting
12 “, AND BEFORE JULY 1, 2010” after “2007”;

13 and

14 (ii) in the matter preceding subclause
15 (I), by inserting “and before July 1,
16 2010,” after “2007,”;

17 (2) in subsection (c)—

18 (A) in paragraph (2)(B)—

19 (i) in clause (iii), by inserting “and”
20 after the semicolon;

21 (ii) in clause (iv), by striking “; and”
22 and inserting a period; and

23 (iii) by striking clause (v); and

1 (B) in paragraph (6), by inserting “and
2 first disbursed before July 1, 2010,” after
3 “1992,”; and
4 (3) in subsection (d)(2)(B), by inserting “, and
5 before July 1, 2010” after “2007”.

6 **SEC. 2209. ORIGINATION OF DIRECT LOANS AT INSTITU-**
7 **TIONS OUTSIDE THE UNITED STATES.**

8 (a) **LOANS FOR STUDENTS ATTENDING INSTITU-**
9 **TIONS OUTSIDE THE UNITED STATES.**—Section 452 (20
10 U.S.C. 1087b) is amended by adding at the end the fol-
11 lowing:

12 “(d) **INSTITUTIONS OUTSIDE THE UNITED**
13 **STATES.**—Loan funds for students (and parents of stu-
14 dents) attending institutions outside the United States
15 shall be disbursed through a financial institution located
16 or operating in the United States and designated by the
17 Secretary to serve as the agent of such institutions with
18 respect to the receipt of the disbursements of such loan
19 funds and the transfer of such funds to such institutions.
20 To be eligible to receive funds under this part, an institu-
21 tion outside the United States shall make arrangements
22 with the agent designated by the Secretary under this sub-
23 section to receive funds under this part.”.

24 (b) **CONFORMING AMENDMENTS.**—

1 (1) AMENDMENTS.—Section 102 (20 U.S.C.
2 1002), as amended by section 102 of the Higher
3 Education Opportunity Act (Public Law 110–315)
4 and section 101 of Public Law 111–39, is amend-
5 ed—

6 (A) by striking “part B” each place the
7 term appears and inserting “part D”;

8 (B) in subsection (a)(1)(C), by inserting “,
9 consistent with the requirements of section
10 452(d)” before the period at the end; and

11 (C) in subsection (a)(2)(A)—

12 (i) in the second sentence of the mat-
13 ter preceding clause (i), by striking “made,
14 insured, or guaranteed” and inserting
15 “made”; and

16 (ii) in clause (iii)—

17 (I) in subclause (III), by striking
18 “only Federal Stafford” and all that
19 follows through “section 428B” and
20 inserting “only Federal Direct Staf-
21 ford Loans under section
22 455(a)(2)(A), Federal Direct Unsub-
23 sidized Stafford Loans under section
24 455(a)(2)(D), or Federal Direct

1 PLUS Loans under section
2 455(a)(2)(B)”; and

3 (II) in subclause (V), by striking
4 “a Federal Stafford” and all that fol-
5 lows through “section 428B” and in-
6 serting “a Federal Direct Stafford
7 Loan under section 455(a)(2)(A), a
8 Federal Direct Unsubsidized Stafford
9 Loan under section 455(a)(2)(D), or a
10 Federal Direct PLUS Loan under
11 section 455(a)(2)(B)”.

12 (2) EFFECTIVE DATE.—The amendments made
13 by subparagraph (C) of paragraph (1) shall be effec-
14 tive on July 1, 2010, as if enacted as part of section
15 102(a)(1) of the Higher Education Opportunity Act
16 (Public Law 110–315) and subject to section 102(e)
17 of such Act as amended by section 101(a)(2) of
18 Public Law 111–39 (20 U.S.C. 1002 note).

19 **SEC. 2210. CONFORMING AMENDMENTS.**

20 (a) AMENDMENTS.—Section 454 (20 U.S.C. 1087d)
21 is amended—

22 (1) in subsection (a)—

23 (A) by striking paragraph (4); and

1 (B) by redesignating paragraphs (5)
2 through (7) as paragraphs (4) through (6), re-
3 spectively; and

4 (2) in subsection (b)(2), by striking “(5), (6),
5 and (7)” and inserting “(5), and (6)”.

6 (b) EFFECTIVE DATE.—The amendments made by
7 subsection (a) shall take effect on July 1, 2010.

8 **SEC. 2211. TERMS AND CONDITIONS OF LOANS.**

9 (a) IN GENERAL.—Section 455 (20 U.S.C. 1087e) is
10 amended—

11 (1) in subsection (a)(1), by inserting “, and
12 first disbursed on June 30, 2010,” before “under
13 sections 428”; and

14 (2) in subsection (g)—

15 (A) by inserting “, including any loan
16 made under part B and first disbursed before
17 July 1, 2010” after “section 428C(a)(4)”; and

18 (B) by striking the third sentence.

19 (b) EFFECTIVE DATE.—The amendment made by
20 subsection (a)(1) shall apply with respect to loans first dis-
21 bursed under part D of title IV of the Higher Education
22 Act of 1965 (20 U.S.C. 1087a et seq.) on or after July
23 1, 2010.

1 **SEC. 2212. CONTRACTS; MANDATORY FUNDS.**

2 (a) CONTRACTS.—Section 456 (20 U.S.C. 1087f) is
3 amended—

4 (1) in subsection (a)—

5 (A) by inserting after paragraph (3) the
6 following new paragraph:

7 “(4) SERVICING BY ELIGIBLE NOT-FOR-PROFIT
8 SERVICERS.—

9 “(A) SERVICING CONTRACTS.—

10 “(i) IN GENERAL.—The Secretary
11 shall contract with each eligible not-for-
12 profit servicer to service loans originated
13 under this part, if the servicer—

14 “(I) meets the standards for
15 servicing Federal assets that apply to
16 contracts awarded pursuant to para-
17 graph (1); and

18 “(II) has the capacity to service
19 the applicable loan volume allocation
20 described in subparagraph (B).

21 “(ii) COMPETITIVE MARKET RATE DE-
22 TERMINATION FOR FIRST 100,000 BOR-
23 ROWER ACCOUNTS.—The Secretary shall
24 establish a separate pricing tier for each of
25 the first 100,000 borrower loan accounts
26 at a competitive market rate.

1 “(iii) INELIGIBILITY.—An eligible not-
2 for-profit servicer shall no longer be eligi-
3 ble for a contract under this paragraph
4 after July 1, 2014, if—

5 “(I) the servicer has not been
6 awarded such a contract before that
7 date; or

8 “(II) the servicer’s contract was
9 terminated, and the servicer had not
10 reapplied for, and been awarded, a
11 contract under this paragraph.

12 “(B) ALLOCATIONS.—

13 “(i) IN GENERAL.—The Secretary
14 shall (except as provided in clause (ii)) al-
15 locate to an eligible not-for-profit servicer,
16 subject to the contract of such servicer de-
17 scribed in subparagraph (A), the servicing
18 rights for the loan accounts of 100,000
19 borrowers (including borrowers who bor-
20 rowed loans in a prior year that were serv-
21 iced by the servicer).

22 “(ii) SERVICER ALLOCATION.—The
23 Secretary may reallocate, increase, reduce,
24 or terminate an eligible not-for-profit
25 servicer’s allocation of servicing rights

1 under clause (i) based on the performance
2 of such servicer, on the same terms as loan
3 allocations provided by contracts awarded
4 pursuant to paragraph (1).”; and

5 (2) by adding at the end the following:

6 “(c) DEFINITION OF ELIGIBLE NOT-FOR-PROFIT
7 SERVICER.—In this section:

8 “(1) IN GENERAL.—The term ‘eligible not-for-
9 profit servicer’ means an entity—

10 “(A) that is not owned or controlled in
11 whole or in part by—

12 “(i) a for profit entity; or

13 “(ii) a nonprofit entity having its
14 principal place of business in another
15 State; and

16 “(B) that—

17 “(i) as of July 1, 2009—

18 “(I) meets the definition of an el-
19 igible not-for-profit holder under sec-
20 tion 435(p), except that such term
21 does not include eligible lenders de-
22 scribed in paragraph (1)(D) of such
23 section; and

24 “(II) was performing, or had en-
25 tered into a contract with a third

1 party servicer (as such term is defined
2 in section 481(c)) who was per-
3 forming, student loan servicing func-
4 tions for loans made under part B of
5 this title;

6 “(ii) notwithstanding clause (i), as of
7 July 1, 2009—

8 “(I) is the sole beneficial owner
9 of a loan for which the special allow-
10 ance rate is calculated under section
11 438(b)(2)(I)(vi)(II) because the loan
12 is held by an eligible lender trustee
13 that is an eligible not-for-profit holder
14 as defined under section
15 435(p)(1)(D); and

16 “(II) was performing, or had en-
17 tered into a contract with a third
18 party servicer (as such term is defined
19 in section 481(c)) who was per-
20 forming, student loan servicing func-
21 tions for loans made under part B of
22 this title; or

23 “(iii) is an affiliated entity of an eligi-
24 ble not-for-profit servicer described in
25 clause (i) or (ii) that—

1 “(I) directly employs, or will di-
2 rectly employ (on or before the date
3 the entity begins servicing loans under
4 a contract awarded by the Secretary
5 pursuant to subsection (a)(3)(A)), the
6 majority of individuals who perform
7 borrower-specific student loan serv-
8 icing functions; and

9 “(II) as of July 1, 2009, was
10 performing, or had entered into a con-
11 tract with a third party servicer (as
12 such term is defined in section
13 481(c)) who was performing, student
14 loan servicing functions for loans
15 made under part B of this title.

16 “(2) AFFILIATED ENTITY.—For the purposes of
17 paragraph (1), the term ‘affiliated entity’—

18 “(A) means an entity contracted to per-
19 form services for an eligible not-for-profit
20 servicer that—

21 “(i) is a nonprofit entity or is wholly
22 owned by a nonprofit entity; and

23 “(ii) is not owned or controlled, in
24 whole or in part, by—

25 “(I) a for-profit entity; or

1 “(II) an entity having its prin-
2 cipal place of business in another
3 State; and

4 “(B) may include an affiliated entity that
5 is established by an eligible not-for-profit
6 servicer after the date of enactment of the
7 SAFRA Act, if such affiliated entity is other-
8 wise described in paragraph (1)(B)(iii)(I) and
9 subparagraph (A) of this paragraph.”.

10 (b) MANDATORY FUNDS.—

11 (1) AMENDMENTS.—Section 458(a) (20 U.S.C.
12 1087h(a)) is amended—

13 (A) by redesignating paragraph (5) as
14 paragraph (8);

15 (B) by redesignating paragraphs (2)
16 through (4) as paragraphs (3) through (5), re-
17 spectively;

18 (C) by inserting after paragraph (1) the
19 following new paragraph:

20 “(2) MANDATORY FUNDS FOR ELIGIBLE NOT-
21 FOR-PROFIT-SERVICERS.—For fiscal years 2010
22 through 2019, there shall be available to the Sec-
23 retary, in addition to any other amounts appro-
24 priated to carry out this paragraph and out of any
25 money in the Treasury not otherwise appropriated,

1 funds to be obligated for administrative costs of
2 servicing contracts with eligible not-for-profit
3 servicers as described in section 456.”; and

4 (D) by inserting after paragraph (5), as
5 redesignated by subparagraph (B) of this para-
6 graph, the following:

7 “(6) TECHNICAL ASSISTANCE TO INSTITUTIONS
8 OF HIGHER EDUCATION.—

9 “(A) PROVISION OF ASSISTANCE.—The
10 Secretary shall provide institutions of higher
11 education participating, or seeking to partici-
12 pate, in the loan programs under this part with
13 technical assistance in establishing and admin-
14 istering such programs.

15 “(B) FUNDS.—There are authorized to be
16 appropriated, and there are appropriated, to
17 carry out this paragraph (in addition to any
18 other amounts appropriated to carry out this
19 paragraph and out of any money in the Treas-
20 ury not otherwise appropriated), \$50,000,000
21 for fiscal year 2010.

22 “(C) DEFINITION.—In this paragraph, the
23 term ‘assistance’ means the provision of tech-
24 nical support, training, materials, technical as-
25 sistance, and financial assistance.

1 “(7) ADDITIONAL PAYMENTS.—

2 “(A) PROVISION OF ASSISTANCE.—The
3 Secretary shall provide payments to loan
4 servicers for retaining jobs at locations in the
5 United States where such servicers were oper-
6 ating under part B on January 1, 2010.

7 “(B) FUNDS.—There are authorized to be
8 appropriated, and there are appropriated, to
9 carry out this paragraph (in addition to any
10 other amounts appropriated to carry out this
11 paragraph and out of any money in the Treas-
12 ury not otherwise appropriated), \$25,000,000
13 for each of the fiscal years 2010 and 2011.”.

14 (2) CONFORMING AMENDMENT.—Section 458
15 (20 U.S.C. 1087h) is further amended by striking
16 “subsection (a)(3)” in subsection (b) and inserting
17 “subsection (a)(4)”.

18 **SEC. 2213. AGREEMENTS WITH STATE-OWNED BANKS.**

19 Part D of title IV (as amended by this subtitle) (20
20 U.S.C. 1087a et seq.) is further amended by adding at
21 the end the following:

22 **“SEC. 460A. AGREEMENTS WITH STATE-OWNED BANKS.**

23 “(a) DEFINITION OF ELIGIBLE LENDER.—In this
24 section, the term ‘eligible lender’ means a lender that, on
25 July 1, 2009, was and continues to be—

1 “(1) a bank, the deposits of which are guaran-
2 teed by a State;

3 “(2) owned by the State in which the lender is
4 located;

5 “(3) under the control of a board of directors
6 that includes the Governor of the State; and

7 “(4) an originator or holder of loans made
8 under the program under part B, as such part was
9 in effect on July 1, 2009.

10 “(b) AGREEMENTS.—

11 “(1) IN GENERAL.—At the request of a State
12 in which an eligible lender is located, the Secretary
13 shall enter into an agreement with the eligible lender
14 under which—

15 “(A) the eligible lender agrees to provide
16 student loans to borrowers in accordance with
17 this section; and

18 “(B) the Secretary agrees to provide Fed-
19 eral loan insurance on the student loans made
20 under this section by that eligible lender to bor-
21 rowers who—

22 “(i) are residents of the State in
23 which the eligible lender is located; or

24 “(ii) attend an institution of higher
25 education in such State.

1 “(2) TERMS OF LOANS.—Loans covered by an
2 agreement under this section shall have the same
3 terms and conditions as loans made under part B,
4 as such part was in effect on June 30, 2010.

5 “(3) PAYMENTS TO ELIGIBLE LENDER.—An
6 agreement under this section shall provide the eligi-
7 ble lender with the equivalent payments and sub-
8 sidies as those provided for loans made under part
9 B, as such part was in effect on June 30, 2010.

10 “(4) FFEL PROGRAM REGULATIONS.—An
11 agreement under this section, any loans made under
12 this section, and the participation of institutions of
13 higher education under this section, shall be subject
14 to regulations issued by the Secretary under part B,
15 as such part was in effect on June 30, 2010.

16 “(c) INSTITUTIONS OF HIGHER EDUCATION.—An in-
17 stitution of higher education that is located in the same
18 State as an eligible lender that has an agreement with the
19 Secretary under this section, or an institution of higher
20 education that is located in another State and is attended
21 by borrowers described in subsection (b)(1)(B)(i), may
22 choose to participate in the loan program operated pursu-
23 ant to the agreement. If such institution of higher edu-
24 cation chooses such participation, the institution shall
25 carry out the institution’s responsibilities with respect to

1 loans made pursuant to the agreement in accordance with
2 subsection (b)(4).

3 “(d) BORROWERS.—A borrower described in sub-
4 section (b)(1)(B) may choose to borrow a loan made pur-
5 suant to an agreement described in subsection (b)(1). A
6 borrower of a loan made pursuant to such agreement shall
7 be subject to the loan terms and conditions required by
8 the agreement, and shall not be eligible to receive a loan
9 made under this part concurrently with a loan made under
10 this section.

11 “(e) INAPPLICABILITY.—Sections 451 through 460
12 shall not apply to this section.”

13 **SEC. 2214. INCOME-BASED REPAYMENT.**

14 Section 493C (20 U.S.C. 1098e) is amended by add-
15 ing at the end the following new subsection:

16 “(e) SPECIAL TERMS FOR NEW BORROWERS ON AND
17 AFTER JULY 1, 2014.—With respect to any loan made
18 to a new borrower on or after July 1, 2014—

19 “(1) subsection (a)(3)(B) shall be applied by
20 substituting ‘10 percent’ for ‘15 percent’; and

21 “(2) subsection (b)(7)(B) shall be applied by
22 substituting ‘20 years’ for ‘25 years’.”

1 “(i) PROVISIONS DESCRIBED.—Those
2 provisions of section 2711 relating to an-
3 nual limits and the provisions of section
4 2704 (relating to pre-existing condition ex-
5 clusions) of the Public Health Service Act
6 (as added by this subtitle) shall apply to
7 grandfathered health plans that are group
8 health plans for plan years beginning with
9 the first plan year to which such provisions
10 otherwise apply.

11 “(ii) ADULT DEPENDENT COV-
12 ERAGE.—For plan years beginning before
13 January 1, 2014, the provisions of section
14 2714 of the Public Health Service Act (as
15 added by this subtitle) shall apply in the
16 case of an adult dependent with respect to
17 a grandfathered health plan that is a
18 group health plan only if such dependent is
19 not eligible to enroll in an eligible em-
20 ployer-sponsored health plan (as defined in
21 section 5000A(f)(2) of the Internal Rev-
22 enue Code of 1986) other than such grand-
23 fathered health plan.”.

24 (b) CLARIFICATION REGARDING DEPENDENT COV-
25 ERAGE.—Section 2714(a) of the Public Health Service

1 Act, as added by section 1001(5) of the Patient Protection
2 and Affordable Care Act, is amended by striking “(who
3 is not married)”.

4 **SEC. 2302. DRUGS PURCHASED BY COVERED ENTITIES.**

5 Section 340B of the Public Health Service Act (42
6 U.S.C. 256b), as amended by sections 7101 and 7102 of
7 the Patient Protection and Affordable Care Act, is amend-
8 ed—

9 (1) in subsection (a)—

10 (A) in paragraphs (1), (2), (5), (7), and
11 (9), by striking the terms “covered drug” and
12 “covered drugs” each place either term appears
13 and inserting “covered outpatient drug” or
14 “covered outpatient drugs”, respectively;

15 (B) in paragraph (4)(L)—

16 (i) in clause (i), by striking “and” at
17 the end;

18 (ii) in clause (ii), by striking the pe-
19 riod and inserting “; and”; and

20 (iii) by inserting after clause (ii), the
21 following:

22 “(iii) does not obtain covered out-
23 patient drugs through a group purchasing
24 organization or other group purchasing ar-
25 rangement.”; and

- 1 (C) in paragraph (5)—
- 2 (i) by striking subparagraph (C);
- 3 (ii) by redesignating subparagraphs
- 4 (D) and (E) as subparagraphs (C) and
- 5 (D), respectively; and
- 6 (iii) in subparagraph (D), as so reded-
- 7 igned, by striking “subparagraph (D)”
- 8 and inserting “subparagraph (C)”;
- 9 (2) by striking subsection (c);
- 10 (3) in subsection (d)—
- 11 (A) by striking “covered drugs” each place
- 12 it appears and inserting “covered outpatient
- 13 drugs”;
- 14 (B) by striking “(a)(5)(D)” each place it
- 15 appears and inserting “(a)(5)(C)”;
- 16 (C) by striking “(a)(5)(E)” each place it
- 17 appears and inserting “(a)(5)(D)”;
- 18 (4) by inserting after subsection (d) the fol-
- 19 lowing:
- 20 “(e) EXCLUSION OF ORPHAN DRUGS FOR CERTAIN
- 21 COVERED ENTITIES.—For covered entities described in
- 22 subparagraph (M), (N), or (O) of subsection (a)(4), the
- 23 term ‘covered outpatient drug’ shall not include a drug
- 24 designated by the Secretary under section 526 of the Fed-

1 eral Food, Drug, and Cosmetic Act for a rare disease or
2 condition.”.

3 **SEC. 2303. COMMUNITY HEALTH CENTERS.**

4 Section 10503(b)(1) of the Patient Protection and
5 Affordable Care Act is amended—

6 (1) in subparagraph (A), by striking
7 “700,000,000” and inserting “1,000,000,000”;

8 (2) in subparagraph (B), by striking
9 “800,000,000” and inserting “1,200,000,000”;

10 (3) in subparagraph (C), by striking
11 “1,000,000,000” and inserting “1,500,000,000”;

12 (4) in subparagraph (D), by striking
13 “1,600,000,000” and inserting “2,200,000,000”;

14 and

15 (5) in subparagraph (E), by striking
16 “2,900,000,000” and inserting “3,600,000,000”.

