

In the Senate of the United States,

December 14, 2007.

Resolved, That the bill from the House of Representatives (H.R. 3648) entitled “An Act to amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes.”, do pass with the following

AMENDMENT:

Strike out all after the enacting clause and insert:

1 ***SECTION 1. SHORT TITLE.***

2 *This Act may be cited as the “Mortgage Forgiveness*
3 *Debt Relief Act of 2007”.*

4 ***SEC. 2. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL***
5 ***RESIDENCE EXCLUDED FROM GROSS IN-***
6 ***COME.***

7 *(a) IN GENERAL.—Paragraph (1) of section 108(a) of*
8 *the Internal Revenue Code of 1986 is amended by striking*
9 *“or” at the end of subparagraph (C), by striking the period*
10 *at the end of subparagraph (D) and inserting “, or”, and*

1 *by inserting after subparagraph (D) the following new sub-*
 2 *paragraph:*

3 “(E) *the indebtedness discharged is quali-*
 4 *fied principal residence indebtedness which is*
 5 *discharged before January 1, 2010.*”.

6 (b) *SPECIAL RULES RELATING TO QUALIFIED PRIN-*
 7 *CIPAL RESIDENCE INDEBTEDNESS.—Section 108 of such*
 8 *Code is amended by adding at the end the following new*
 9 *subsection:*

10 “(h) *SPECIAL RULES RELATING TO QUALIFIED PRIN-*
 11 *CIPAL RESIDENCE INDEBTEDNESS.—*

12 “(1) *BASIS REDUCTION.—The amount excluded*
 13 *from gross income by reason of subsection (a)(1)(E)*
 14 *shall be applied to reduce (but not below zero) the*
 15 *basis of the principal residence of the taxpayer.*

16 “(2) *QUALIFIED PRINCIPAL RESIDENCE INDEBT-*
 17 *EDNESS.—For purposes of this section, the term*
 18 *‘qualified principal residence indebtedness’ means ac-*
 19 *quisition indebtedness (within the meaning of section*
 20 *163(h)(3)(B), applied by substituting ‘\$2,000,000*
 21 *(\$1,000,000’ for ‘\$1,000,000 (\$500,000’ in clause (ii)*
 22 *thereof) with respect to the principal residence of the*
 23 *taxpayer.*

24 “(3) *EXCEPTION FOR CERTAIN DISCHARGES NOT*
 25 *RELATED TO TAXPAYER’S FINANCIAL CONDITION.—*

1 *Subsection (a)(1)(E) shall not apply to the discharge*
2 *of a loan if the discharge is on account of services*
3 *performed for the lender or any other factor not di-*
4 *rectly related to a decline in the value of the residence*
5 *or to the financial condition of the taxpayer.*

6 “(4) *ORDERING RULE.—If any loan is dis-*
7 *charged, in whole or in part, and only a portion of*
8 *such loan is qualified principal residence indebted-*
9 *ness, subsection (a)(1)(E) shall apply only to so much*
10 *of the amount discharged as exceeds the amount of the*
11 *loan (as determined immediately before such dis-*
12 *charge) which is not qualified principal residence in-*
13 *debtedness.*

14 “(5) *PRINCIPAL RESIDENCE.—For purposes of*
15 *this subsection, the term ‘principal residence’ has the*
16 *same meaning as when used in section 121.”.*

17 (c) *COORDINATION.—*

18 (1) *Subparagraph (A) of section 108(a)(2) of*
19 *such Code is amended by striking “and (D)” and in-*
20 *serting “(D), and (E)”.*

21 (2) *Paragraph (2) of section 108(a) of such Code*
22 *is amended by adding at the end the following new*
23 *subparagraph:*

24 “(C) *PRINCIPAL RESIDENCE EXCLUSION*
25 *TAKES PRECEDENCE OVER INSOLVENCY EXCLU-*

1 *SION UNLESS ELECTED OTHERWISE.—Paragraph*
2 *(1)(B) shall not apply to a discharge to which*
3 *paragraph (1)(E) applies unless the taxpayer*
4 *elects to apply paragraph (1)(B) in lieu of para-*
5 *graph (1)(E).”.*

6 *(d) EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to discharges of indebtedness on or after*
8 *January 1, 2007.*

9 **SEC. 3. EXTENSION OF TREATMENT OF MORTGAGE INSUR-**
10 **ANCE PREMIUMS AS INTEREST.**

11 *(a) IN GENERAL.—Subclause (I) of section*
12 *163(h)(3)(E)(iv) of the Internal Revenue Code of 1986 (re-*
13 *lating to termination) is amended by striking “December*
14 *31, 2007” and inserting “December 31, 2010”.*

15 *(b) EFFECTIVE DATE.—The amendment made by this*
16 *section shall apply to amounts paid or accrued after Decem-*
17 *ber 31, 2007.*

18 **SEC. 4. ALTERNATIVE TESTS FOR QUALIFYING AS COOPER-**
19 **ATIVE HOUSING CORPORATION.**

20 *(a) IN GENERAL.—Subparagraph (D) of section*
21 *216(b)(1) of the Internal Revenue Code of 1986 (defining*
22 *cooperative housing corporation) is amended to read as fol-*
23 *lows:*

24 *“(D) meeting 1 or more of the following re-*
25 *quirements for the taxable year in which the*

1 *taxes and interest described in subsection (a) are*
2 *paid or incurred:*

3 “(i) 80 percent or more of the corpora-
4 tion’s gross income for such taxable year is
5 derived from tenant-stockholders.

6 “(ii) At all times during such taxable
7 year, 80 percent or more of the total square
8 footage of the corporation’s property is used
9 or available for use by the tenant-stock-
10 holders for residential purposes or purposes
11 ancillary to such residential use.

12 “(iii) 90 percent or more of the ex-
13 penditures of the corporation paid or in-
14 curred during such taxable year are paid or
15 incurred for the acquisition, construction,
16 management, maintenance, or care of the
17 corporation’s property for the benefit of the
18 tenant-stockholders.”.

19 (b) *EFFECTIVE DATE.*—*The amendment made by this*
20 *section shall apply to taxable years ending after the date*
21 *of the enactment of this Act.*

1 **SEC. 5. EXCLUSION FROM INCOME FOR BENEFITS PRO-**
2 **VIDED TO VOLUNTEER FIREFIGHTERS AND**
3 **EMERGENCY MEDICAL RESPONDERS.**

4 (a) *IN GENERAL.*—Part III of subchapter B of chapter
5 1 of the Internal Revenue Code of 1986 (relating to items
6 specifically excluded from gross income) is amended by in-
7 serting after section 139A the following new section:

8 **“SEC. 139B. BENEFITS PROVIDED TO VOLUNTEER FIRE-**
9 **FIGHTERS AND EMERGENCY MEDICAL RE-**
10 **SPONDERS.**

11 “(a) *IN GENERAL.*—In the case of any member of a
12 qualified volunteer emergency response organization, gross
13 income shall not include—

14 “(1) any qualified State and local tax benefit,
15 and

16 “(2) any qualified payment.

17 “(b) *DENIAL OF DOUBLE BENEFITS.*—In the case of
18 any member of a qualified volunteer emergency response
19 organization—

20 “(1) the deduction under 164 shall be determined
21 with regard to any qualified State and local tax ben-
22 efit, and

23 “(2) expenses paid or incurred by the taxpayer
24 in connection with the performance of services as such
25 a member shall be taken into account under section
26 170 only to the extent such expenses exceed the

1 amount of any qualified payment excluded from gross
2 income under subsection (a).

3 “(c) *DEFINITIONS.—For purposes of this section—*

4 “(1) *QUALIFIED STATE AND LOCAL TAX BEN-*
5 *EFIT.—The term ‘qualified state and local tax benefit’*
6 *means any reduction or rebate of a tax described in*
7 *paragraph (1), (2), or (3) of section 164(a) provided*
8 *by a State or political division thereof on account of*
9 *services performed as a member of a qualified volun-*
10 *teer emergency response organization.*

11 “(2) *QUALIFIED PAYMENT.—*

12 “(A) *IN GENERAL.—The term ‘qualified*
13 *payment’ means any payment (whether reim-*
14 *bursement or otherwise) provided by a State or*
15 *political division thereof on account of the per-*
16 *formance of services as a member of a qualified*
17 *volunteer emergency response organization.*

18 “(B) *APPLICABLE DOLLAR LIMITATION.—*
19 *The amount determined under subparagraph (A)*
20 *for any taxable year shall not exceed \$30 multi-*
21 *plied by the number of months during such year*
22 *that the taxpayer performs such services.*

23 “(3) *QUALIFIED VOLUNTEER EMERGENCY RE-*
24 *SPONSE ORGANIZATION.—The term ‘qualified volun-*

1 *teer emergency response organization’ means any vol-*
 2 *unteer organization—*

3 “(A) *which is organized and operated to*
 4 *provide firefighting or emergency medical serv-*
 5 *ices for persons in the State or political subdivi-*
 6 *sion, as the case may be, and*

7 “(B) *which is required (by written agree-*
 8 *ment) by the State or political subdivision to*
 9 *furnish firefighting or emergency medical serv-*
 10 *ices in such State or political subdivision.*

11 “(d) *TERMINATION.—This section shall not apply with*
 12 *respect to taxable years beginning after December 31,*
 13 *2010.”.*

14 (b) *CLERICAL AMENDMENT.—The table of sections for*
 15 *such part is amended by inserting after the item relating*
 16 *to section 139A the following new item:*

“Sec. 139B. Benefits provided to volunteer firefighters and emergency medical re-
sponders.”.

17 (c) *EFFECTIVE DATE.—The amendments made by this*
 18 *section shall apply to taxable years beginning after Decem-*
 19 *ber 31, 2007.*

20 **SEC. 6. CLARIFICATION OF STUDENT HOUSING ELIGIBLE**
 21 **FOR LOW-INCOME HOUSING CREDIT.**

22 (a) *IN GENERAL.—Subclause (I) of section*
 23 *42(i)(3)(D)(ii) of the Internal Revenue Code of 1986 (relat-*

1 *ing to certain students not to disqualify unit) is amended*
 2 *to read as follows:*

3 “(I) *single parents and their chil-*
 4 *dren and such parents are not depend-*
 5 *ents (as defined in section 152, deter-*
 6 *mined without regard to subsections*
 7 *(b)(1), (b)(2), and (d)(1)(B) thereof) of*
 8 *another individual and such children*
 9 *are not dependents (as so defined) of*
 10 *another individual other than a parent*
 11 *of such children, or.”*

12 (b) *EFFECTIVE DATE.*—*The amendment made by this*
 13 *section shall apply to—*

14 (1) *housing credit amounts allocated before, on,*
 15 *or after the date of the enactment of this Act, and*

16 (2) *buildings placed in service before, on, or after*
 17 *such date to the extent paragraph (1) of section 42(h)*
 18 *of the Internal Revenue Code of 1986 does not apply*
 19 *to any building by reason of paragraph (4) thereof.*

20 **SEC. 7. APPLICATION OF JOINT RETURN LIMITATION FOR**
 21 **CAPITAL GAINS EXCLUSION TO CERTAIN**
 22 **POST-MARRIAGE SALES OF PRINCIPAL RESI-**
 23 **DENCES BY SURVIVING SPOUSES.**

24 (a) *SALE WITHIN 2 YEARS OF SPOUSE’S DEATH.*—
 25 *Section 121(b) of the Internal Revenue Code of 1986 (relat-*

1 *ing to limitations) is amended by adding at the end the*
2 *following new paragraph:*

3 “(4) *SPECIAL RULE FOR CERTAIN SALES BY SUR-*
4 *VIVING SPOUSES.—In the case of a sale or exchange*
5 *of property by an unmarried individual whose spouse*
6 *is deceased on the date of such sale, paragraph (1)*
7 *shall be applied by substituting ‘\$500,000’ for*
8 *‘\$250,000’ if such sale occurs not later than 2 years*
9 *after the date of death of such spouse and the require-*
10 *ments of paragraph (2)(A) were met immediately be-*
11 *fore such date of death.”.*

12 (b) *EFFECTIVE DATE.—The amendment made by this*
13 *section shall apply to sales or exchanges after December 31,*
14 *2007.*

15 **SEC. 8. MODIFICATION OF PENALTY FOR FAILURE TO FILE**
16 **PARTNERSHIP RETURNS; LIMITATION ON DIS-**
17 **CLOSURE.**

18 (a) *EXTENSION OF TIME LIMITATION.—Section*
19 *6698(a) of the Internal Revenue Code of 1986 (relating to*
20 *failure to file partnership returns) is amended by striking*
21 *“5 months” and inserting “12 months”.*

22 (b) *INCREASE IN PENALTY AMOUNT.—Paragraph (1)*
23 *of section 6698(b) of such Code is amended by striking*
24 *“\$50” and inserting “\$85”.*

1 (c) *LIMITATION ON DISCLOSURE OF TAXPAYER RE-*
2 *TURNS TO PARTNERS, S CORPORATION SHAREHOLDERS,*
3 *TRUST BENEFICIARIES, AND ESTATE BENEFICIARIES.—*

4 (1) *IN GENERAL.—Section 6103(e) of such Code*
5 *(relating to disclosure to persons having material in-*
6 *terest) is amended by adding at the end the following*
7 *new paragraph:*

8 “(10) *LIMITATION ON CERTAIN DISCLOSURES*
9 *UNDER THIS SUBSECTION.—In the case of an inspec-*
10 *tion or disclosure under this subsection relating to the*
11 *return of a partnership, S corporation, trust, or an*
12 *estate, the information inspected or disclosed shall not*
13 *include any supporting schedule, attachment, or list*
14 *which includes the taxpayer identity information of a*
15 *person other than the entity making the return or the*
16 *person conducting the inspection or to whom the dis-*
17 *closure is made.”.*

18 (2) *EFFECTIVE DATE.—The amendment made by*
19 *this subsection shall take effect on the date of the en-*
20 *actment of this Act.*

21 (d) *EFFECTIVE DATE.—The amendments made by*
22 *subsections (a) and (b) shall apply to returns required to*
23 *be filed after the date of the enactment of this Act.*

1 **SEC. 9. PENALTY FOR FAILURE TO FILE S CORPORATION**
 2 **RETURNS.**

3 (a) *IN GENERAL.*—Part I of subchapter B of chapter
 4 68 of the Internal Revenue Code of 1986 (relating to assess-
 5 able penalties) is amended by adding at the end the fol-
 6 lowing new section:

7 **“SEC. 6699. FAILURE TO FILE S CORPORATION RETURN.**

8 “(a) *GENERAL RULE.*—In addition to the penalty im-
 9 posed by section 7203 (relating to willful failure to file re-
 10 turn, supply information, or pay tax), if any S corporation
 11 required to file a return under section 6037 for any taxable
 12 year—

13 “(1) fails to file such return at the time pre-
 14 scribed therefor (determined with regard to any exten-
 15 sion of time for filing), or

16 “(2) files a return which fails to show the infor-
 17 mation required under section 6037,

18 such S corporation shall be liable for a penalty determined
 19 under subsection (b) for each month (or fraction thereof)
 20 during which such failure continues (but not to exceed 12
 21 months), unless it is shown that such failure is due to rea-
 22 sonable cause.

23 “(b) *AMOUNT PER MONTH.*—For purposes of sub-
 24 section (a), the amount determined under this subsection
 25 for any month is the product of—

26 “(1) \$85, multiplied by

1 “(2) *the number of persons who were share-*
2 *holders in the S corporation during any part of the*
3 *taxable year.*”

4 “(c) *ASSESSMENT OF PENALTY.—The penalty imposed*
5 *by subsection (a) shall be assessed against the S corpora-*
6 *tion.*”

7 “(d) *DEFICIENCY PROCEDURES NOT TO APPLY.—Sub-*
8 *chapter B of chapter 63 (relating to deficiency procedures*
9 *for income, estate, gift, and certain excise taxes) shall not*
10 *apply in respect of the assessment or collection of any pen-*
11 *alty imposed by subsection (a).”.*

12 “(b) *CLERICAL AMENDMENT.—The table of sections for*
13 *part I of subchapter B of chapter 68 of such Code is amend-*
14 *ed by adding at the end the following new item:*

 “*Sec. 6699. Failure to file S corporation return.*”.

15 “(c) *EFFECTIVE DATE.—The amendments made by this*
16 *section shall apply to returns required to be filed after the*
17 *date of the enactment of this Act.*”

18 **SEC. 10. MODIFICATION OF REQUIRED INSTALLMENT OF**
19 **CORPORATE ESTIMATED TAXES WITH RE-**
20 **SPECT TO CERTAIN DATES.**

21 *The percentage under subparagraph (B) of section*
22 *401(1) of the Tax Increase Prevention and Reconciliation*

- 1 *Act of 2005 in effect on the date of the enactment of this*
- 2 *Act is increased by 1.50 percentage points.*

Attest:

Secretary.

110TH CONGRESS
1ST SESSION

H. R. 3648

AMENDMENT