

110TH CONGRESS
1ST SESSION

H. R. 3648

IN THE SENATE OF THE UNITED STATES

OCTOBER 4, 2007

Received; read twice and referred to the Committee on Finance

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.

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

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)
8 of the Internal Revenue Code of 1986 is amended by strik-
9 ing “or” at the end of subparagraph (C), by striking the
10 period at the end of subparagraph (D) and inserting “,
11 or”, and by inserting after subparagraph (D) the following
12 new subparagraph:

13 “(E) the indebtedness discharged is quali-
14 fied principal residence indebtedness.”.

15 (b) SPECIAL RULES RELATING TO QUALIFIED PRIN-
16 CIPAL RESIDENCE INDEBTEDNESS.—Section 108 of such
17 Code is amended by adding at the end the following new
18 subsection:

19 “(h) SPECIAL RULES RELATING TO QUALIFIED
20 PRINCIPAL RESIDENCE INDEBTEDNESS.—

21 “(1) BASIS REDUCTION.—The amount excluded
22 from gross income by reason of subsection (a)(1)(E)
23 shall be applied to reduce (but not below zero) the
24 basis of the principal residence of the taxpayer.

25 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-
26 DEBTEDNESS.—For purposes of this section, the

1 term ‘qualified principal residence indebtedness’
2 means acquisition indebtedness (within the meaning
3 of section 163(h)(3)(B), applied by substituting
4 ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000
5 (\$500,000’ in clause (ii) thereof) with respect to the
6 principal residence of the taxpayer.

7 “(3) EXCEPTION FOR CERTAIN DISCHARGES
8 NOT RELATED TO TAXPAYER’S FINANCIAL CONDI-
9 TION.—Subsection (a)(1)(E) shall not apply to the
10 discharge of a loan if the discharge is on account of
11 services performed for the lender or any other factor
12 not directly related to a decline in the value of the
13 residence or to the financial condition of the tax-
14 payer.

15 “(4) ORDERING RULE.—If any loan is dis-
16 charged, in whole or in part, and only a portion of
17 such loan is qualified principal residence indebted-
18 ness, subsection (a)(1)(E) shall apply only to so
19 much of the amount discharged as exceeds the
20 amount of the loan (as determined immediately be-
21 fore such discharge) which is not qualified principal
22 residence indebtedness.

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

1 (c) COORDINATION.—

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

5 (2) Paragraph (2) of section 108(a) of such
6 Code is amended by adding at the end the following
7 new subparagraph:

8 “(C) PRINCIPAL RESIDENCE EXCLUSION
9 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-
10 SION UNLESS ELECTED OTHERWISE.—Para-
11 graph (1)(B) shall not apply to a discharge to
12 which paragraph (1)(E) applies unless the tax-
13 payer elects to apply paragraph (1)(B) in lieu
14 of paragraph (1)(E).”.

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to discharges of indebtedness on
17 or after January 1, 2007.

18 **SEC. 3. LONG-TERM EXTENSION OF DEDUCTION FOR MORT-**
19 **GAGE INSURANCE PREMIUMS.**

20 (a) IN GENERAL.—Subparagraph (E) of section
21 163(h)(3) of the Internal Revenue Code of 1986 (relating
22 to mortgage insurance premiums treated as interest) is
23 amended by striking clauses (iii) and (iv) and inserting
24 the following new clause:

1 “(iii) APPLICATION.—Clause (i) shall
2 not apply with respect to any mortgage in-
3 surance contract issued before January 1,
4 2007, or after December 31, 2014.”.

5 (b) EFFECTIVE DATE.—The amendment made by
6 subsection (a) shall apply to contracts issued after Decem-
7 ber 31, 2006.

8 **SEC. 4. ALTERNATIVE TESTS FOR QUALIFYING AS COOPER-**
9 **ATIVE HOUSING CORPORATION.**

10 (a) IN GENERAL.—Subparagraph (D) of section
11 216(b)(1) of the Internal Revenue Code of 1986 (defining
12 cooperative housing corporation) is amended to read as
13 follows:

14 “(D) meeting 1 or more of the following
15 requirements for the taxable year in which the
16 taxes and interest described in subsection (a)
17 are paid or incurred:

18 “(i) 80 percent or more of the cor-
19 poration’s gross income for such taxable
20 year is derived from tenant-stockholders.

21 “(ii) At all times during such taxable
22 year, 80 percent or more of the total
23 square footage of the corporation’s prop-
24 erty is used or available for use by the ten-

1 ant-stockholders for residential purposes or
2 purposes ancillary to such residential use.

3 “(iii) 90 percent or more of the ex-
4 penditures of the corporation paid or in-
5 curred during such taxable year are paid
6 or incurred for the acquisition, construc-
7 tion, management, maintenance, or care of
8 the corporation’s property for the benefit
9 of the tenant-stockholders.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years ending after the
12 date of the enactment of this Act.

13 **SEC. 5. GAIN FROM SALE OF PRINCIPAL RESIDENCE ALLO-**
14 **CATED TO NONQUALIFIED USE NOT EX-**
15 **CLUDED FROM INCOME.**

16 (a) IN GENERAL.—Subsection (b) of section 121 of
17 the Internal Revenue Code of 1986 (relating to limita-
18 tions) is amended by adding at the end the following new
19 paragraph:

20 “(4) EXCLUSION OF GAIN ALLOCATED TO NON-
21 QUALIFIED USE.—

22 “(A) IN GENERAL.—Subsection (a) shall
23 not apply to so much of the gain from the sale
24 or exchange of property as is allocated to peri-
25 ods of nonqualified use.

1 “(B) GAIN ALLOCATED TO PERIODS OF
2 NONQUALIFIED USE.—For purposes of subpara-
3 graph (A), gain shall be allocated to periods of
4 nonqualified use based on the ratio which—

5 “(i) the aggregate periods of non-
6 qualified use during the period such prop-
7 erty was owned by the taxpayer, bears to

8 “(ii) the period such property was
9 owned by the taxpayer.

10 “(C) PERIOD OF NONQUALIFIED USE.—
11 For purposes of this paragraph—

12 “(i) IN GENERAL.—The term ‘period
13 of nonqualified use’ means any period
14 (other than the portion of any period pre-
15 ceding January 1, 2008) during which the
16 property is not used as the principal resi-
17 dence of the taxpayer or the taxpayer’s
18 spouse or former spouse.

19 “(ii) EXCEPTIONS.—The term ‘period
20 of nonqualified use’ does not include—

21 “(I) any portion of the 5-year pe-
22 riod described in subsection (a) which
23 is after the last date that such prop-
24 erty is used as the principal residence

1 of the taxpayer or the taxpayer's
2 spouse,

3 “(II) any period (not to exceed
4 an aggregate period of 10 years) dur-
5 ing which the taxpayer or the tax-
6 payer's spouse is serving on qualified
7 official extended duty (as defined in
8 subsection (d)(9)(C)) described in
9 clause (i), (ii), or (iii) of subsection
10 (d)(9)(A), and

11 “(III) any other period of tem-
12 porary absence (not to exceed an ag-
13 gregate period of 2 years) due to
14 change of employment, health condi-
15 tions, or such other unforeseen cir-
16 cumstances as may be specified by the
17 Secretary.

18 “(D) COORDINATION WITH RECOGNITION
19 OF GAIN ATTRIBUTABLE TO DEPRECIATION.—
20 For purposes of this paragraph—

21 “(i) subparagraph (A) shall be applied
22 after the application of subsection (d)(6),
23 and

1 “(ii) subparagraph (B) shall be ap-
2 plied without regard to any gain to which
3 subsection (d)(6) applies.”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to sales and exchanges after De-
6 cember 31, 2007.

7 **SEC. 6. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
8 **TAXES.**

9 Subparagraph (B) of section 401(1) of the Tax In-
10 crease Prevention and Reconciliation Act of 2005 is
11 amended by striking the percentage contained therein and
12 inserting “116.75 percent”.

Passed the House of Representatives October 4,
2007.

Attest: LORRAINE C. MILLER,
Clerk.