H.R. 3648
Mortgage Forgiveness Debt Relief Act of 2007

September 26, 2007

Permanent exclusion from gross income of discharged home mortgage indebtedness. The bill would amend current law, which requires taxpayers to include discharges of mortgage indebtedness as income and to pay tax on this income. The bill would provide a permanent exclusion for any discharge of indebtedness (on or after January 1, 2007) which is secured by a principal residence and which is incurred in the acquisition, construction, or substantial improvement of the principal residence. Instead of including this amount as income, the basis of the individual's principal residence would be reduced by the amount excluded from income under this bill. *This proposal is estimated to cost $1.379 billion over 10 years.*

Long-term extension of the deduction for private mortgage insurance. The bill extends the deduction for private mortgage insurance for seven years (through the end of 2014). Current law limits the deduction for private mortgage insurance to payments made prior to the end of 2007. The bill would provide that payments will qualify for this deduction whenever they are paid so long as the contract is entered into after 2006 and before 2015. *This proposal is estimated to cost $570 million over the next 10 years.*

Modification of the qualification tests for cooperative housing corporations. The bill would modify the requirements for qualifying for the special rules available to cooperative housing corporations. Under current law, a cooperative housing corporation must meet several requirements, including a requirement that 80 percent or more of the cooperative housing corporation is earned from the corporation's tenant-stockholders. The bill would provide two alternatives to this 80 percent rule (i.e., one based on square footage and another based on cooperative expenditures). These two alternatives will make it easier to qualify as a cooperative housing corporation. *This proposal is estimated to cost $22 million over 10 years.*

Modification of exclusion of gain on sale of a principal residence. The bill amends the current law exclusion of up to $250,000 ($500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. Under current law, the sale of a home will qualify for this exclusion if the home is a taxpayer's principal residence for at least two of the five years ending on the sale or exchange. This exclusion applies even if the home was initially purchased as a second home. Under the bill, if a taxpayer moves their principal residence to a second home, the taxpayer will only be able to utilize this exclusion to the extent that it relates to the period of time when the home was first used as a principal residence. The bill grandfathers use before 2008. *This proposal is estimated to raise $2.005 billion over 10 years.*