

# Union Calendar No. 220

110TH CONGRESS  
1ST SESSION

# H. R. 3648

[Report No. 110-356]

To amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 25, 2007

Mr. RANGEL (for himself, Mr. STARK, Mr. LEVIN, Mr. McDERMOTT, Mr. POMEROY, Mr. LARSON of Connecticut, Mr. EMANUEL, Mr. BLUMENAUER, Mr. PASCARELL, Ms. BERKLEY, Mr. CROWLEY, Mr. VAN HOLLEN, Mr. MEEK of Florida, Ms. SCHWARTZ, Mr. RAMSTAD, Mr. ENGLISH of Pennsylvania, Mr. ANDREWS, Mr. NADLER, Mrs. MALONEY of New York, Mr. SPACE, and Mr. NEAL of Massachusetts) introduced the following bill; which was referred to the Committee on Ways and Means

OCTOBER 1, 2007

Additional sponsors: Mr. GORDON of Tennessee, Ms. GINNY BROWN-WAITE of Florida, Mr. FATTAH, Mr. HOLT, and Ms. GIFFORDS

OCTOBER 1, 2007

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

[For text of introduced bill, see copy of bill as introduced on September 25, 2007]

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## A BILL

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,*

3 **SECTION 1. SHORT TITLE.**

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

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

9 *(a) IN GENERAL.—Paragraph (1) of section 108(a) of*  
 10 *the Internal Revenue Code of 1986 is amended by striking*  
 11 *“or” at the end of subparagraph (C), by striking the period*  
 12 *at the end of subparagraph (D) and inserting “, or”, and*  
 13 *by inserting after subparagraph (D) the following new sub-*  
 14 *paragraph:*

15 *“(E) the indebtedness discharged is quali-*  
 16 *fied principal residence indebtedness.”.*

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

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

23 *“(1) BASIS REDUCTION.—The amount excluded*  
 24 *from gross income by reason of subsection (a)(1)(E)*

1       *shall be applied to reduce (but not below zero) the*  
2       *basis of the principal residence of the taxpayer.*

3               “(2) *QUALIFIED PRINCIPAL RESIDENCE INDEBT-*  
4       *EDNESS.—For purposes of this section, the term*  
5       *‘qualified principal residence indebtedness’ means ac-*  
6       *quisition indebtedness (within the meaning of section*  
7       *163(h)(3)(B), without regard to clause (ii) thereof*  
8       *with respect to the principal residence of the tax-*  
9       *payer.*

10              “(3) *EXCEPTION FOR DISCHARGES ON ACCOUNT*  
11       *OF SERVICES PERFORMED FOR THE LENDER.—Sub-*  
12       *section (a)(1)(E) shall not apply to the discharge of*  
13       *a loan if the discharge is on account of services per-*  
14       *formed for the lender.*

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 much*  
19       *of the amount discharged as exceeds the amount of the*  
20       *loan (as determined immediately before such dis-*  
21       *charge) which is not qualified principal residence in-*  
22       *debtedness.*

23              “(5) *PRINCIPAL RESIDENCE.—For purposes of*  
24       *this subsection, the term ‘principal residence’ has the*  
25       *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 Code*  
6 *is amended by adding at the end the following new*  
7 *subparagraph:*

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

15       (d) *EFFECTIVE DATE.*—*The amendments made by this*  
16 *section shall apply to discharges of indebtedness on or after*  
17 *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 sub-  
6                   section (a) shall apply to contracts issued after December  
7                   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 fol-  
13                   lows:

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

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

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

1           *holders for residential purposes or purposes*  
2           *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 or  
6           incurred for the acquisition, construction,  
7           management, maintenance, or care of the  
8           corporation’s property for the benefit of the  
9           tenant-stockholders.”.

10          **(b) EFFECTIVE DATE.**—*The amendment made by this*  
11          *section shall apply to taxable years ending after the date*  
12          *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 the*  
17          *Internal Revenue Code of 1986 (relating to limitations) is*  
18          *amended by adding at the end the following new paragraph:*

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

21                                    “(A) **IN GENERAL.**—*Subsection (a) shall not*  
22                                    *apply to so much of the gain from the sale or ex-*  
23                                    *change of property as is allocated to periods of*  
24                                    *nonqualified use.*

1           “(B) *GAIN ALLOCATED TO PERIODS OF NON-*  
2           *QUALIFIED USE.*—*For purposes of subparagraph*  
3           *(A), gain shall be allocated to periods of non-*  
4           *qualified 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.*—*For*  
11           *purposes of this paragraph—*

12                   “(i) *IN GENERAL.*—*The term ‘period of*  
13                   *nonqualified use’ means any period (other*  
14                   *than the portion of any period preceding*  
15                   *January 1, 2008) during which the prop-*  
16                   *erty is not used as the principal residence*  
17                   *of the taxpayer or the taxpayer’s spouse or*  
18                   *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 property*  
24                           *is used as the principal residence of the*  
25                           *taxpayer or the taxpayer’s spouse,*

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

8                   “(III) any other period of tem-  
9                   porary absence (not to exceed an aggre-  
10                  gate period of 2 years) due to change  
11                  of employment, health conditions, or  
12                  such other unforeseen circumstances as  
13                  may be specified by the Secretary.

14                  “(D) COORDINATION WITH RECOGNITION OF  
15                  GAIN ATTRIBUTABLE TO DEPRECIATION.—For  
16                  purposes of this paragraph—

17                         “(i) subparagraph (A) shall be applied  
18                         after the application of subsection (d)(6),  
19                         and

20                         “(ii) subparagraph (B) shall be ap-  
21                         plied without regard to any gain to which  
22                         subsection (d)(6) applies.”.

23                  (b) *EFFECTIVE DATE.*—The amendment made by this  
24                  section shall apply to sales and exchanges after December  
25                  31, 2007.



1 **SEC. 6. TIME FOR PAYMENT OF CORPORATE ESTIMATED**  
2 **TAXES.**

3 *Subparagraph (B) of section 401(1) of the Tax In-*  
4 *crease Prevention and Reconciliation Act of 2005 is amend-*  
5 *ed by striking the percentage contained therein and insert-*  
6 *ing “116.75 percent”.*

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