

110TH CONGRESS
1ST SESSION

H. R. 3648

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

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. PASCRELL, 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

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,*

1 **SECTION 1. DISCHARGES OF INDEBTEDNESS ON PRIN-**
2 **CIPAL RESIDENCE EXCLUDED FROM GROSS**
3 **INCOME.**

4 (a) IN GENERAL.—Paragraph (1) of section 108(a)
5 of the Internal Revenue Code of 1986 is amended by strik-
6 ing “or” at the end of subparagraph (C), by striking the
7 period at the end of subparagraph (D) and inserting “,
8 or”, and by inserting after subparagraph (D) the following
9 new subparagraph:

10 “(E) the indebtedness discharged is quali-
11 fied principal residence indebtedness.”.

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

16 “(h) SPECIAL RULES RELATING TO QUALIFIED
17 PRINCIPAL RESIDENCE INDEBTEDNESS.—

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

22 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-
23 DEBTEDNESS.—For purposes of this section, the
24 term ‘qualified principal residence indebtedness’
25 means acquisition indebtedness (within the meaning
26 of section 163(h)(3)(B), without regard to clause (ii)

1 thereof) with respect to the principal residence of
2 the taxpayer.

3 “(3) EXCEPTION FOR DISCHARGES ON AC-
4 COUNT OF SERVICES PERFORMED FOR THE LEND-
5 ER.—Subsection (a)(1)(E) shall not apply to the dis-
6 charge of a loan if the discharge is on account of
7 services performed for the lender.

8 “(4) PRINCIPAL RESIDENCE.—For purposes of
9 this subsection, the term ‘principal residence’ has
10 the same meaning as when used in section 121.”.

11 (c) COORDINATION.—

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

15 (2) Paragraph (2) of section 108(a) of such
16 Code is amended by adding at the end the following
17 new subparagraph:

18 “(C) PRINCIPAL RESIDENCE EXCLUSION
19 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-
20 SION UNLESS ELECTED OTHERWISE.—Para-
21 graph (1)(B) shall not apply to a discharge to
22 which paragraph (1)(E) applies unless the tax-
23 payer elects to apply paragraph (1)(B) in lieu
24 of paragraph (1)(E).”.

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

4 **SEC. 2. LONG-TERM EXTENSION OF DEDUCTION FOR MORT-**
5 **GAGE INSURANCE PREMIUMS.**

6 (a) IN GENERAL.—Subparagraph (E) of section
7 163(h)(3) of the Internal Revenue Code of 1986 (relating
8 to mortgage insurance premiums treated as interest) is
9 amended by striking clauses (iii) and (iv) and inserting
10 the following new clause:

11 “(iii) APPLICATION.—Clause (i) shall
12 not apply with respect to any mortgage in-
13 surance contract issued before January 1,
14 2007, or after December 31, 2014.”.

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

18 **SEC. 3. 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
23 follows:

24 “(D) meeting 1 or more of the following
25 requirements for the taxable year in which the

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

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

6 “(ii) At all times during such taxable
7 year, 80 percent or more of the total
8 square footage of the corporation’s prop-
9 erty is used or available for use by the ten-
10 ant-stockholders for residential purposes or
11 purposes 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
15 or incurred for the acquisition, construc-
16 tion, management, maintenance, or care of
17 the corporation’s property for the benefit
18 of the tenant-stockholders.”.

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

1 **SEC. 4. GAIN FROM SALE OF PRINCIPAL RESIDENCE ALLO-**
2 **CATED TO NONQUALIFIED USE NOT EX-**
3 **CLUDED FROM INCOME.**

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

8 “(4) EXCLUSION OF GAIN ALLOCATED TO NON-
9 QUALIFIED USE.—

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

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

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

21 “(ii) the period such property was
22 owned by the taxpayer.

23 “(C) PERIOD OF NONQUALIFIED USE.—
24 For purposes of this paragraph—

25 “(i) IN GENERAL.—The term ‘period
26 of nonqualified use’ means any period

1 (other than the portion of any period pre-
2 ceding January 1, 2008) during which the
3 property is not used as the principal resi-
4 dence of the taxpayer or the taxpayer's
5 spouse or former spouse.

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

8 “(I) any portion of the 5-year pe-
9 riod described in subsection (a) which
10 is after the last date that such prop-
11 erty is used as the principal residence
12 of the taxpayer or the taxpayer's
13 spouse,

14 “(II) any period (not to exceed
15 an aggregate period of 10 years) dur-
16 ing which the taxpayer or the tax-
17 payer's spouse is serving on qualified
18 official extended duty (as defined in
19 subsection (d)(9)(C)) described in
20 clause (i), (ii), or (iii) of subsection
21 (d)(9)(A), and

22 “(III) any other period of tem-
23 porary absence (not to exceed an ag-
24 gregate period of 2 years) due to
25 change of employment, health condi-

1 tions, or such other unforeseen cir-
2 cumstances as may be specified by the
3 Secretary.

4 “(D) COORDINATION WITH RECOGNITION
5 OF GAIN ATTRIBUTABLE TO DEPRECIATION.—
6 For purposes of this paragraph—

7 “(i) subparagraph (A) shall be applied
8 after the application of subsection (d)(6),
9 and

10 “(ii) subparagraph (B) shall be ap-
11 plied without regard to any gain to which
12 subsection (d)(6) applies.”.

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

16 **SEC. 5. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
17 **TAXES.**

18 Subparagraph (B) of section 401(1) of the Tax In-
19 crease Prevention and Reconciliation Act of 2005 is
20 amended by striking “114.75 percent” and inserting
21 “116.50 percent”.

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