

110<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 3648

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IN THE SENATE OF THE UNITED STATES

OCTOBER 4, 2007

Received; read twice and referred to the Committee on Finance

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## 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



