H. R. 3648

# One Hundred Tenth Congress of the United States of America

**AT THE FIRST SESSION**

***Begun and held at the City of Washington on Thursday, the fourth day of January, two thousand and seven***

# 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.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Mortgage Forgiveness Debt Relief Act of 2007".

**SEC. 2. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL RESIDENCE EXCLUDED FROM GROSS INCOME.**

(a) IN GENERAL.—Paragraph (1) of section 108(a) of the Internal Revenue Code of 1986 is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) the indebtedness discharged is qualified principal residence indebtedness which is discharged before January 1, 2010.".

(b) SPECIAL RULES RELATING TO QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.—Section 108 of such Code is amended by adding at the end the following new subsection:

"(h) SPECIAL RULES RELATING TO QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.—

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

"(2) QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.—For purposes of this section, the term 'qualified principal residence indebtedness' means acquisition indebtedness (within the meaning of section 163(h)(3)(B), applied by substituting '$2,000,000 ($1,000,000' for '$1,000,000 ($500,000' in clause (ii) thereof) with respect to the principal residence of the taxpayer.

"(3) EXCEPTION FOR CERTAIN DISCHARGES NOT RELATED TO TAXPAYER'S FINANCIAL CONDITION.—Subsection (a)(1)(E) shall not apply to the discharge of a loan if the discharge is on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer.

"(4) ORDERING RULE.—If any loan is discharged, in whole or in part, and only a portion of such loan is qualified principal residence indebtedness, subsection (a)(1)(E) shall apply only to so much of the amount discharged as exceeds the amount

of the loan (as determined immediately before such discharge) which is not qualified principal residence indebtedness.

"(5) PRINCIPAL RESIDENCE.—For purposes of this subsection, the term 'principal residence' has the same meaning as when used in section 121.".

(c) COORDINATION.—

(1) Subparagraph (A) of section 108(a)(2) of such Code is amended by striking "and (D)" and inserting "(D), and (E)".

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

"(C) PRINCIPAL RESIDENCE EXCLUSION TAKES PRECEDENCE OVER INSOLVENCY EXCLUSION UNLESS ELECTED OTHERWISE.—Paragraph (1)(B) shall not apply to a discharge to which paragraph (1)(E) applies unless the taxpayer elects to apply paragraph (1)(B) in lieu of paragraph (1)(E).".

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

**SEC. 3. EXTENSION OF TREATMENT OF MORTGAGE INSURANCE PREMIUMS AS INTEREST.**

(a) IN GENERAL.—Subclause (I) of section 163(h)(3)(E)(iv) of the Internal Revenue Code of 1986 (relating to termination) is amended by striking "December 31, 2007" and inserting "December 31, 2010".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to amounts paid or accrued after December 31, 2007.

**SEC. 4. ALTERNATIVE TESTS FOR QUALIFYING AS COOPERATIVE HOUSING CORPORATION.**

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

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

"(i) 80 percent or more of the corporation's gross income for such taxable year is derived from tenant-stockholders.

"(ii) At all times during such taxable year, 80 percent or more of the total square footage of the corporation's property is used or available for use by the tenant-stockholders for residential purposes or purposes ancillary to such residential use.

"(iii) 90 percent or more of the expenditures of the corporation paid or incurred during such taxable year are paid or incurred for the acquisition, construction, management, maintenance, or care of the corporation's property for the benefit of the tenant-stockholders.".

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

**SEC. 5. EXCLUSION FROM INCOME FOR BENEFITS PROVIDED TO VOLUNTEER FIREFIGHTERS AND EMERGENCY MEDICAL RESPONDERS.**

(a) IN GENERAL.—Part III of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to items specifically excluded from gross income) is amended by inserting after section 139A the following new section:

**"SEC. 139B. BENEFITS PROVIDED TO VOLUNTEER FIREFIGHTERS AND EMERGENCY MEDICAL RESPONDERS.**

"(a) IN GENERAL.—In the case of any member of a qualified volunteer emergency response organization, gross income shall not include—

"(1) any qualified State and local tax benefit, and

"(2) any qualified payment.

"(b) DENIAL OF DOUBLE BENEFITS.—In the case of any member of a qualified volunteer emergency response organization—

"(1) the deduction under 164 shall be determined with regard to any qualified State and local tax benefit, and

"(2) expenses paid or incurred by the taxpayer in connection with the performance of services as such a member shall be taken into account under section 170 only to the extent such expenses exceed the amount of any qualified payment excluded from gross income under subsection (a).

"(c) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED STATE AND LOCAL TAX BENEFIT.—The term 'qualified state and local tax benefit' means any reduction or rebate of a tax described in paragraph (1), (2), or (3) of section 164(a) provided by a State or political division thereof on account of services performed as a member of a qualified volunteer emergency response organization.

"(2) QUALIFIED PAYMENT.—

"(A) IN GENERAL.—The term 'qualified payment' means any payment (whether reimbursement or otherwise) provided by a State or political division thereof on account of the performance of services as a member of a qualified volunteer emergency response organization.

"(B) APPLICABLE DOLLAR LIMITATION.—The amount determined under subparagraph (A) for any taxable year shall not exceed $30 multiplied by the number of months during such year that the taxpayer performs such services.

"(3) QUALIFIED VOLUNTEER EMERGENCY RESPONSE ORGANIZATION.—The term 'qualified volunteer emergency response organization' means any volunteer organization—

"(A) which is organized and operated to provide firefighting or emergency medical services for persons in the State or political subdivision, as the case may be, and

"(B) which is required (by written agreement) by the State or political subdivision to furnish firefighting or emergency medical services in such State or political subdivision.

"(d) TERMINATION.—This section shall not apply with respect to taxable years beginning after December 31, 2010.".

(b) CLERICAL AMENDMENT.—The table of sections for such part is amended by inserting after the item relating to section 139A the following new item:

"Sec. 139B. Benefits provided to volunteer firefighters and emergency medical responders.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

**SEC. 6. CLARIFICATION OF STUDENT HOUSING ELIGIBLE FOR LOW-INCOME HOUSING CREDIT.**

(a) IN GENERAL.—Subclause (I) of section 42(i)(3)(D)(ii) of the Internal Revenue Code of 1986 (relating to certain students not to disqualify unit) is amended to read as follows:

"(I) single parents and their children and such parents are not dependents (as defined in section 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof) of another individual and such children are not dependents (as so defined) of another individual other than a parent of such children, or.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to—

(1) housing credit amounts allocated before, on, or after the date of the enactment of this Act, and

(2) buildings placed in service before, on, or after such date to the extent paragraph (1) of section 42(h) of the Internal Revenue Code of 1986 does not apply to any building by reason of paragraph (4) thereof.

**SEC. 7. APPLICATION OF JOINT RETURN LIMITATION FOR CAPITAL GAINS EXCLUSION TO CERTAIN POST-MARRIAGE SALES OF PRINCIPAL RESIDENCES BY SURVIVING SPOUSES.**

(a) SALE WITHIN 2 YEARS OF SPOUSE'S DEATH.—Section 121(b) of the Internal Revenue Code of 1986 (relating to limitations) is amended by adding at the end the following new paragraph:

"(4) SPECIAL RULE FOR CERTAIN SALES BY SURVIVING SPOUSES.—In the case of a sale or exchange of property by an unmarried individual whose spouse is deceased on the date of such sale, paragraph (1) shall be applied by substituting '$500,000' for '$250,000' if such sale occurs not later than 2 years after the date of death of such spouse and the requirements of paragraph (2)(A) were met immediately before such date of death.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales or exchanges after December 31, 2007.

**SEC. 8. MODIFICATION OF PENALTY FOR FAILURE TO FILE PARTNERSHIP RETURNS; LIMITATION ON DISCLOSURE.**

(a) EXTENSION OF TIME LIMITATION.—Section 6698(a) of the Internal Revenue Code of 1986 (relating to failure to file partnership returns) is amended by striking "5 months" and inserting "12 months".

(b) INCREASE IN PENALTY AMOUNT.—Paragraph (1) of section 6698(b) of such Code is amended by striking "$50" and inserting "$85".

(c) LIMITATION ON DISCLOSURE OF TAXPAYER RETURNS TO PARTNERS, S CORPORATION SHAREHOLDERS, TRUST BENEFICIARIES, AND ESTATE BENEFICIARIES.—

(1) IN GENERAL.—Section 6103(e) of such Code (relating to disclosure to persons having material interest) is amended by adding at the end the following new paragraph:

"(10) LIMITATION ON CERTAIN DISCLOSURES UNDER THIS SUBSECTION.—In the case of an inspection or disclosure under this subsection relating to the return of a partnership, S corporation, trust, or an estate, the information inspected or disclosed shall not include any supporting schedule, attachment, or list which includes the taxpayer identity information of a person other than the entity making the return or the person conducting the inspection or to whom the disclosure is made.".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall take effect on the date of the enactment of this Act.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to returns required to be filed after the date of the enactment of this Act.

**SEC. 9. PENALTY FOR FAILURE TO FILE S CORPORATION RETURNS.**

(a) IN GENERAL.—Part I of subchapter B of chapter 68 of the Internal Revenue Code of 1986 (relating to assessable penalties) is amended by adding at the end the following new section:

**"SEC. 6699. FAILURE TO FILE S CORPORATION RETURN.**

"(a) GENERAL RULE.—In addition to the penalty imposed by section 7203 (relating to willful failure to file return, supply information, or pay tax), if any S corporation required to file a return under section 6037 for any taxable year—

"(1) fails to file such return at the time prescribed therefor (determined with regard to any extension of time for filing), or

"(2) files a return which fails to show the information required under section 6037,

such S corporation shall be liable for a penalty determined under subsection (b) for each month (or fraction thereof) during which such failure continues (but not to exceed 12 months), unless it is shown that such failure is due to reasonable cause.

"(b) AMOUNT PER MONTH.—For purposes of subsection (a), the amount determined under this subsection for any month is the product of—

"(1) $85, multiplied by

"(2) the number of persons who were shareholders in the S corporation during any part of the taxable year.

"(c) ASSESSMENT OF PENALTY.—The penalty imposed by subsection (a) shall be assessed against the S corporation.

"(d) DEFICIENCY PROCEDURES NOT TO APPLY.—Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).".

(b) CLERICAL AMENDMENT.—The table of sections for part I of subchapter B of chapter 68 of such Code is amended by adding at the end the following new item:

"Sec. 6699. Failure to file S corporation return.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns required to be filed after the date of the enactment of this Act.

**SEC. 10. MODIFICATION OF REQUIRED INSTALLMENT OF CORPORATE ESTIMATED TAXES WITH RESPECT TO CERTAIN DATES.**

The percentage under subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 in effect on the date of the enactment of this Act is increased by 1.50 percentage points.

*Speaker of the House of Representatives.*

*Vice President of the United States and*
*President of the Senate.*