

Internal Revenue Code Section 108(h)

Income from discharge of indebtedness

(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.