

110TH CONGRESS  
1ST SESSION

# H. R. 3506

To amend the Internal Revenue Code of 1986 to exclude from gross income certain amounts of cancellation of indebtedness income on account of a foreclosure on the mortgage secured by the principal residence of the taxpayer.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 7, 2007

Mr. SPACE introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to exclude from gross income certain amounts of cancellation of indebtedness income on account of a foreclosure on the mortgage secured by the principal residence of the taxpayer.

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 “Foreclosure Tax Relief  
5 Act of 2007”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME FOR CERTAIN**  
2 **FORGIVEN FIRST MORTGAGE OBLIGATIONS.**

3 (a) IN GENERAL.—Paragraph (1) of section 108(a)  
4 of the Internal Revenue Code of 1986 (relating to exclu-  
5 sion from gross income) is amended by striking “or” at  
6 the end of subparagraph (C), by striking the period at the  
7 end of subparagraph (D) and inserting “, or”, and by in-  
8 serting after subparagraph (D) the following new subpara-  
9 graph:

10 “(E) in the case of an eligible individual,  
11 the indebtedness discharged is qualified prin-  
12 cipal residence indebtedness.”.

13 (b) QUALIFIED PRINCIPAL RESIDENCE INDEBTED-  
14 NESS.—Section 108 of such Code (relating to discharge  
15 of indebtedness) is amended by adding at the end the fol-  
16 lowing new subsection:

17 “(h) QUALIFIED PRINCIPAL RESIDENCE INDEBTED-  
18 NESS.—For purposes of subparagraph (E) of subsection  
19 (a)(1)—

20 “(1) LIMITATION.—The amount excluded under  
21 subsection (a)(1)(E) with respect to any qualified  
22 principal residence indebtedness shall not exceed  
23 \$50,000.

24 “(2) ELIGIBLE INDIVIDUAL.—The term ‘eligible  
25 individual’ means any individual if the modified ad-

1       justed gross income of the taxpayer is not more than  
2       \$100,000 (\$200,000 in the case of a joint return).

3               “(3) QUALIFIED PRINCIPAL RESIDENCE IN-  
4       DEBTEDNESS.—

5               “(A) IN GENERAL.—The term ‘qualified  
6       principal residence indebtedness’ means any  
7       first mortgage indebtedness—

8               “(i) which was incurred by the tax-  
9       payer to acquire, construct, or substan-  
10      tially improve real property owned and  
11      used as the principal residence (within the  
12      meaning of section 121) of the taxpayer  
13      during periods aggregating at least 2 years  
14      during the 5-year period ending on the  
15      date that the debt is discharged, and

16              “(ii) which was secured by such real  
17      property.

18              “(B) REFINANCED INDEBTEDNESS.—Such  
19      term shall include indebtedness resulting from  
20      the refinancing of indebtedness under subpara-  
21      graph (A), but only to the extent the refinanced  
22      indebtedness does not exceed the amount of the  
23      indebtedness being refinanced.

24              “(4) MODIFIED ADJUSTED GROSS INCOME.—

25      For purposes of paragraph (2), the term ‘modified

1 adjusted gross income’ means adjusted gross income  
2 determined—

3 “(A) without regard to subsection  
4 (a)(1)(E) and sections 199, 911, 931, and 933,  
5 and

6 “(B) after application of sections 86, 135,  
7 137, 219, 221, 222, and 469.

8 “(5) BASIS REDUCTION.—The basis of the prin-  
9 cipal residence of the taxpayer shall be reduced by  
10 the amount excluded from gross income under sub-  
11 section (a)(1)(E).

12 “(6) COORDINATION WITH INSOLVENCY EXCLU-  
13 SION.—Subsection (a)(1)(E) shall not apply to a dis-  
14 charge which occurs when the taxpayer is solvent  
15 unless the taxpayer elects not to apply subsection  
16 (a)(1)(B).

17 “(7) APPLICATION OF SUBSECTION.—This sub-  
18 section shall apply to discharges in taxable years be-  
19 ginning in 2007 or 2008.”.

20 (c) CONFORMING AMENDMENTS.—

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

1           (2) Sections 86(b)(2)(A) and 219(g)(3)(A)(ii)  
2 of such Code are each amended by inserting  
3 “108(a)(1)(E),” before “135,”.

4           (3) Section 135(c)(4)(A) of such Code is  
5 amended by inserting “108(a)(1)(E),” before  
6 “137,”.

7           (4) Sections 137(b)(3)(A) and 222(b)(2)(C)(i)  
8 of such Code are each amended by inserting  
9 “108(a)(1)(E),” before “199,”.

10          (5) Section 221(b)(2)(C)(i) of such Code is  
11 amended by inserting “108(a)(1)(E),” before  
12 “222,”.

13          (6) Section 469(i)(3)(F)(ii) of such Code is  
14 amended by striking “135” and inserting  
15 “108(a)(1)(E), 135,”.

16          (d) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to discharges in taxable years be-  
18 ginning after December 31, 2006.

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