

110TH CONGRESS  
1ST SESSION

# S. 1394

To amend the Internal Revenue Code of 1986, to exclude from gross income of individual taxpayers discharges of indebtedness attributable to certain forgiven residential mortgage obligations.

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## IN THE SENATE OF THE UNITED STATES

MAY 15, 2007

Ms. STABENOW (for herself, Mr. VOINOVICH, Mr. KERRY, Mr. LEVIN, and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986, to exclude from gross income of individual taxpayers discharges of indebtedness attributable to certain forgiven residential mortgage obligations.

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 “Mortgage Cancellation  
5 Relief Act of 2007”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME FOR CERTAIN**  
 2 **FORGIVEN 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 individual, the in-  
 11 debtedness discharged is qualified residential in-  
 12 debtedness.”.

13 (b) QUALIFIED RESIDENTIAL INDEBTEDNESS  
 14 SHORTFALL.—Section 108 of such Code (relating to dis-  
 15 charge of indebtedness) is amended by adding at the end  
 16 the following new subsection:

17 “(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

18 “(1) LIMITATIONS.—The amount excluded  
 19 under subparagraph (E) of subsection (a)(1) with  
 20 respect to any qualified residential indebtedness  
 21 shall not exceed the excess (if any) of—

22 “(A) the outstanding principal amount of  
 23 such indebtedness (immediately before the dis-  
 24 charge), over

25 “(B) the sum of—

1           “(i) the amount realized from the sale  
2           of the real property securing such indebt-  
3           edness reduced by the cost of such sale,  
4           plus

5           “(ii) the outstanding principal amount  
6           of any other indebtedness secured by such  
7           property.

8           “(2) QUALIFIED RESIDENTIAL INDEBTED-  
9           NESS.—

10           “(A) IN GENERAL.—The term ‘qualified  
11           residential indebtedness’ means indebtedness  
12           which—

13           “(i) was incurred or assumed by the  
14           taxpayer in connection with real property  
15           used as a residence and is secured by such  
16           real property,

17           “(ii) is incurred or assumed to ac-  
18           quire, construct, reconstruct, or substan-  
19           tially improve such real property, and

20           “(iii) with respect to which such tax-  
21           payer makes an election to have this para-  
22           graph apply.

23           “(B) REFINANCED INDEBTEDNESS.—Such  
24           term shall include indebtedness resulting from  
25           the refinancing of indebtedness under subpara-

1 graph (A)(ii), but only to the extent the refi-  
2 nanced indebtedness does not exceed the  
3 amount of the indebtedness being refinanced.

4 “(C) EXCEPTIONS.—Such term shall not  
5 include qualified farm indebtedness or qualified  
6 real property business indebtedness.”.

7 (c) CONFORMING AMENDMENTS.—

8 (1) Paragraph (2) of section 108(a) of such  
9 Code is amended—

10 (A) in subparagraph (A) by striking “and  
11 (D)” and inserting “(D), and (E)”, and

12 (B) by amending subparagraph (B) to read  
13 as follows:

14 “(B) INSOLVENCY EXCLUSION TAKES  
15 PRECEDENCE OVER QUALIFIED FARM EXCLU-  
16 SION; QUALIFIED REAL PROPERTY BUSINESS  
17 EXCLUSION; AND QUALIFIED RESIDENTIAL IN-  
18 DEBTEDNESS EXCLUSION.—Subparagraphs (C),  
19 (D), and (E) of paragraph (1) shall not apply  
20 to a discharge to the extent the taxpayer is in-  
21 solvent.”.

22 (2) Paragraph (1) of section 108(b) of such  
23 Code is amended by striking “or (C)” and inserting  
24 “(C), or (E)”.

1           (3) Subsection (d) of section 121 of such Code  
2           is amended by adding at the end the following new  
3           paragraph:

4           “(12) SPECIAL RULE RELATING TO DISCHARGE  
5           OF INDEBTEDNESS.—The amount of gain which  
6           (but for this paragraph) would be excluded from  
7           gross income under subsection (a) with respect to a  
8           principal residence shall be reduced by the amount  
9           excluded from gross income under section  
10          108(a)(1)(E) with respect to such residence.”.

11          (d) EFFECTIVE DATE.—The amendments made by  
12          this section shall apply to discharges after the date of the  
13          enactment of this Act.

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