

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 3648
OFFERED BY MR. RANGEL OF NEW YORK**

Strike all after the enacting clause and insert the following:

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:

1 “(h) SPECIAL RULES RELATING TO QUALIFIED
2 PRINCIPAL RESIDENCE INDEBTEDNESS.—

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

7 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-
8 DEBTEDNESS.—For purposes of this section, the
9 term ‘qualified principal residence indebtedness’
10 means acquisition indebtedness (within the meaning
11 of section 163(h)(3)(B), without regard to clause (ii)
12 thereof) with respect to the principal residence of
13 the taxpayer.

14 “(3) EXCEPTION FOR DISCHARGES ON AC-
15 COUNT OF SERVICES PERFORMED FOR THE LEND-
16 ER.—Subsection (a)(1)(E) shall not apply to the dis-
17 charge of a loan if the discharge is on account of
18 services performed for the lender.

19 “(4) PRINCIPAL RESIDENCE.—For purposes of
20 this subsection, the term ‘principal residence’ has
21 the same meaning as when used in section 121.”.

22 (c) COORDINATION.—

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

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

4 “(C) PRINCIPAL RESIDENCE EXCLUSION
5 TAKES PRECEDENCE OVER INSOLVENCY EXCLU-
6 SION UNLESS ELECTED OTHERWISE.—Para-
7 graph (1)(B) shall not apply to a discharge to
8 which paragraph (1)(E) applies unless the tax-
9 payer elects to apply paragraph (1)(B) in lieu
10 of paragraph (1)(E).”.

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

14 **SEC. 3. LONG-TERM EXTENSION OF DEDUCTION FOR MORT-**
15 **GAGE INSURANCE PREMIUMS.**

16 (a) IN GENERAL.—Subparagraph (E) of section
17 163(h)(3) of the Internal Revenue Code of 1986 (relating
18 to mortgage insurance premiums treated as interest) is
19 amended by striking clauses (iii) and (iv) and inserting
20 the following new clause:

21 “(iii) APPLICATION.—Clause (i) shall
22 not apply with respect to any mortgage in-
23 surance contract issued before January 1,
24 2007, or after December 31, 2014.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to contracts issued after Decem-
3 ber 31, 2006.

4 **SEC. 4. ALTERNATIVE TESTS FOR QUALIFYING AS COOPER-**
5 **ATIVE HOUSING CORPORATION.**

6 (a) IN GENERAL.—Subparagraph (D) of section
7 216(b)(1) of the Internal Revenue Code of 1986 (defining
8 cooperative housing corporation) is amended to read as
9 follows:

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

14 “(i) 80 percent or more of the cor-
15 poration’s gross income for such taxable
16 year is derived from tenant-stockholders.

17 “(ii) At all times during such taxable
18 year, 80 percent or more of the total
19 square footage of the corporation’s prop-
20 erty is used or available for use by the ten-
21 ant-stockholders for residential purposes or
22 purposes ancillary to such residential use.

23 “(iii) 90 percent or more of the ex-
24 penditures of the corporation paid or in-
25 curred during such taxable year are paid

1 or incurred for the acquisition, construc-
2 tion, management, maintenance, or care of
3 the corporation's property for the benefit
4 of the tenant-stockholders.”.

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

8 **SEC. 5. GAIN FROM SALE OF PRINCIPAL RESIDENCE ALLO-**
9 **CATED TO NONQUALIFIED USE NOT EX-**
10 **CLUDED FROM INCOME.**

11 (a) IN GENERAL.—Subsection (b) of section 121 of
12 the Internal Revenue Code of 1986 (relating to limita-
13 tions) is amended by adding at the end the following new
14 paragraph:

15 “(4) EXCLUSION OF GAIN ALLOCATED TO NON-
16 QUALIFIED USE.—

17 “(A) IN GENERAL.—Subsection (a) shall
18 not apply to so much of the gain from the sale
19 or exchange of property as is allocated to peri-
20 ods of nonqualified use.

21 “(B) GAIN ALLOCATED TO PERIODS OF
22 NONQUALIFIED USE.—For purposes of subpara-
23 graph (A), gain shall be allocated to periods of
24 nonqualified use based on the ratio which—

1 “(i) the aggregate periods of non-
2 qualified use during the period such prop-
3 erty was owned by the taxpayer, bears to

4 “(ii) the period such property was
5 owned by the taxpayer.

6 “(C) PERIOD OF NONQUALIFIED USE.—

7 For purposes of this paragraph—

8 “(i) IN GENERAL.—The term ‘period
9 of nonqualified use’ means any period
10 (other than the portion of any period pre-
11 ceding January 1, 2008) during which the
12 property is not used as the principal resi-
13 dence of the taxpayer or the taxpayer’s
14 spouse or former spouse.

15 “(ii) EXCEPTIONS.—The term ‘period
16 of nonqualified use’ does not include—

17 “(I) any portion of the 5-year pe-
18 riod described in subsection (a) which
19 is after the last date that such prop-
20 erty is used as the principal residence
21 of the taxpayer or the taxpayer’s
22 spouse,

23 “(II) any period (not to exceed
24 an aggregate period of 10 years) dur-
25 ing which the taxpayer or the tax-

1 payer's spouse is serving on qualified
2 official extended duty (as defined in
3 subsection (d)(9)(C)) described in
4 clause (i), (ii), or (iii) of subsection
5 (d)(9)(A), and

6 “(III) any other period of tem-
7 porary absence (not to exceed an ag-
8 gregate period of 2 years) due to
9 change of employment, health condi-
10 tions, or such other unforeseen cir-
11 cumstances as may be specified by the
12 Secretary.

13 “(D) COORDINATION WITH RECOGNITION
14 OF GAIN ATTRIBUTABLE TO DEPRECIATION.—
15 For purposes of this paragraph—

16 “(i) subparagraph (A) shall be applied
17 after the application of subsection (d)(6),
18 and

19 “(ii) subparagraph (B) shall be ap-
20 plied without regard to any gain to which
21 subsection (d)(6) applies.”.

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to sales and exchanges after De-
24 cember 31, 2007.

1 **SEC. 6. TIME FOR PAYMENT OF CORPORATE ESTIMATED**
2 **TAXES.**

3 Subparagraph (B) of section 401(1) of the Tax In-
4 crease Prevention and Reconciliation Act of 2005 is
5 amended by striking “114.75 percent” and inserting
6 “116.50 percent”.