

AMENDMENT NO. \_\_\_\_\_ Calendar No. \_\_\_\_\_

Purpose: To provide a complete substitute.

**IN THE SENATE OF THE UNITED STATES—110th Cong., 1st Sess.**

**H. R. 3648**

To amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes.

Referred to the Committee on \_\_\_\_\_ and  
ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT IN THE NATURE OF A SUBSTITUTE intended  
to be proposed by Mr. BAUCUS (for himself and Mr.  
GRASSLEY)

Viz:

- 1 Strike all after the enacting clause and insert the fol-
- 2 lowing:
- 3 **SECTION 1. SHORT TITLE.**
- 4 This Act may be cited as the “Mortgage Forgiveness
- 5 Debt Relief Act of 2007”.

1 **SEC. 2. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL**  
2 **RESIDENCE EXCLUDED FROM GROSS IN-**  
3 **COME.**

4 (a) IN GENERAL.—Paragraph (1) of section 108(a)  
5 of the Internal Revenue Code of 1986 is amended by strik-  
6 ing “or” at the end of subparagraph (C), by striking the  
7 period at the end of subparagraph (D) and inserting “,  
8 or”, and by inserting after subparagraph (D) the following  
9 new subparagraph:

10 “(E) the indebtedness discharged is quali-  
11 fied principal residence indebtedness which is  
12 discharged before January 1, 2010.”.

13 (b) SPECIAL RULES RELATING TO QUALIFIED PRIN-  
14 CIPAL RESIDENCE INDEBTEDNESS.—Section 108 of such  
15 Code is amended by adding at the end the following new  
16 subsection:

17 “(h) SPECIAL RULES RELATING TO QUALIFIED  
18 PRINCIPAL RESIDENCE INDEBTEDNESS.—

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

23 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-  
24 DEBTEDNESS.—For purposes of this section, the  
25 term ‘qualified principal residence indebtedness’  
26 means acquisition indebtedness (within the meaning

1 of section 163(h)(3)(B), applied by substituting  
2 ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000  
3 (\$500,000’ in clause (ii) thereof) with respect to the  
4 principal residence of the taxpayer.

5 “(3) EXCEPTION FOR CERTAIN DISCHARGES  
6 NOT RELATED TO TAXPAYER’S FINANCIAL CONDI-  
7 TION.—Subsection (a)(1)(E) shall not apply to the  
8 discharge of a loan if the discharge is on account of  
9 services performed for the lender or any other factor  
10 not directly related to a decline in the value of the  
11 residence or to the financial condition of the tax-  
12 payer.

13 “(4) ORDERING RULE.—If any loan is dis-  
14 charged, in whole or in part, and only a portion of  
15 such loan is qualified principal residence indebted-  
16 ness, subsection (a)(1)(E) shall apply only to so  
17 much of the amount discharged as exceeds the  
18 amount of the loan (as determined immediately be-  
19 fore such discharge) which is not qualified principal  
20 residence indebtedness.

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

24 (c) COORDINATION.—

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

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

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

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

17      **SEC. 3. EXTENSION OF TREATMENT OF MORTGAGE INSUR-**  
18                              **ANCE PREMIUMS AS INTEREST.**

19          (a) IN GENERAL.—Subclause (I) of section  
20          163(h)(3)(E)(iv) of the Internal Revenue Code of 1986  
21          (relating to termination) is amended by striking “Decem-  
22          ber 31, 2007” and inserting “December 31, 2010”.

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

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

3 (a) IN GENERAL.—Subparagraph (D) of section  
4 216(b)(1) of the Internal Revenue Code of 1986 (defining  
5 cooperative housing corporation) is amended to read as  
6 follows:

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

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

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

20 “(iii) 90 percent or more of the ex-  
21 penditures of the corporation paid or in-  
22 curred during such taxable year are paid  
23 or incurred for the acquisition, construc-  
24 tion, management, maintenance, or care of  
25 the corporation’s property for the benefit  
26 of the tenant-stockholders.”.

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

4 **SEC. 5. EXCLUSION FROM INCOME FOR BENEFITS PRO-**  
5 **VIDED TO VOLUNTEER FIREFIGHTERS AND**  
6 **EMERGENCY MEDICAL RESPONDERS.**

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

11 **“SEC. 139B. BENEFITS PROVIDED TO VOLUNTEER FIRE-**  
12 **FIGHTERS AND EMERGENCY MEDICAL RE-**  
13 **SPONDERS.**

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

17 “(1) any qualified State and local tax benefit,

18 and

19 “(2) any qualified payment.

20 “(b) DENIAL OF DOUBLE BENEFITS.—In the case  
21 of any member of a qualified volunteer emergency re-  
22 sponse organization—

23 “(1) the deduction under 164 shall be deter-  
24 mined with regard to any qualified State and local  
25 tax benefit, and

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

7           “(c) DEFINITIONS.—For purposes of this section—

8           “(1) QUALIFIED STATE AND LOCAL TAX BEN-  
9           EFIT.—The term ‘qualified state and local tax ben-  
10          efit’ means any reduction or rebate of a tax de-  
11          scribed in paragraph (1), (2), or (3) of section  
12          164(a) provided by a State or political division  
13          thereof on account of services performed as a mem-  
14          ber of a qualified volunteer emergency response or-  
15          ganization.

16          “(2) QUALIFIED PAYMENT.—

17                 “(A) IN GENERAL.—The term ‘qualified  
18                 payment’ means any payment (whether reim-  
19                 bursement or otherwise) provided by a State or  
20                 political division thereof on account of the per-  
21                 formance of services as a member of a qualified  
22                 volunteer emergency response organization.

23                 “(B) APPLICABLE DOLLAR LIMITATION.—

24                 The amount determined under subparagraph  
25                 (A) for any taxable year shall not exceed \$30

1 multiplied by the number of months during  
2 such year that the taxpayer performs such serv-  
3 ices.

4 “(3) QUALIFIED VOLUNTEER EMERGENCY RE-  
5 SPONSE ORGANIZATION.—The term ‘qualified volun-  
6 teer emergency response organization’ means any  
7 volunteer organization—

8 “(A) which is organized and operated to  
9 provide firefighting or emergency medical serv-  
10 ices for persons in the State or political subdivi-  
11 sion, as the case may be, and

12 “(B) which is required (by written agree-  
13 ment) by the State or political subdivision to  
14 furnish firefighting or emergency medical serv-  
15 ices in such State or political subdivision.

16 “(d) TERMINATION.—This section shall not apply  
17 with respect to taxable years beginning after December  
18 31, 2010.”.

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

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

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

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

3 (a) IN GENERAL.—Subclause (I) of section  
4 42(i)(3)(D)(ii) of the Internal Revenue Code of 1986 (re-  
5 lating to certain students not to disqualify unit) is amend-  
6 ed to read as follows:

7 “(I) single parents and their chil-  
8 dren and such parents are not de-  
9 pendents (as defined in section 152,  
10 determined without regard to sub-  
11 sections (b)(1), (b)(2), and (d)(1)(B)  
12 thereof) of another individual and  
13 such children are not dependents (as  
14 so defined) of another individual other  
15 than a parent of such children, or.”

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

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

20 (2) buildings placed in service before, on, or  
21 after such date to the extent paragraph (1) of sec-  
22 tion 42(h) of the Internal Revenue Code of 1986  
23 does not apply to any building by reason of para-  
24 graph (4) thereof.

1 **SEC. 7. APPLICATION OF JOINT RETURN LIMITATION FOR**  
2 **CAPITAL GAINS EXCLUSION TO CERTAIN**  
3 **POST-MARRIAGE SALES OF PRINCIPAL RESI-**  
4 **DENCES BY SURVIVING SPOUSES.**

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

9 “(4) SPECIAL RULE FOR CERTAIN SALES BY  
10 SURVIVING SPOUSES.—In the case of a sale or ex-  
11 change of property by an unmarried individual  
12 whose spouse is deceased on the date of such sale,  
13 paragraph (1) shall be applied by substituting  
14 ‘\$500,000’ for ‘\$250,000’ if such sale occurs not  
15 later than 2 years after the date of death of such  
16 spouse and the requirements of paragraph (2)(A)  
17 were met immediately before such date of death.”.

18 (b) EFFECTIVE DATE.—The amendment made by  
19 this section shall apply to sales or exchanges after Decem-  
20 ber 31, 2007.

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

24 (a) EXTENSION OF TIME LIMITATION.—Section  
25 6698(a) of the Internal Revenue Code of 1986 (relating

1 to failure to file partnership returns) is amended by strik-  
2 ing “5 months” and inserting “12 months”.

3 (b) INCREASE IN PENALTY AMOUNT.—Paragraph  
4 (1) of section 6698(b) of such Code is amended by striking  
5 “\$50” and inserting “\$85”.

6 (c) LIMITATION ON DISCLOSURE OF TAXPAYER RE-  
7 TURNS TO PARTNERS, S CORPORATION SHAREHOLDERS,  
8 TRUST BENEFICIARIES, AND ESTATE BENEFICIARIES.—

9 (1) IN GENERAL.—Section 6103(e) of such  
10 Code (relating to disclosure to persons having mate-  
11 rial interest) is amended by adding at the end the  
12 following new paragraph:

13 “(10) LIMITATION ON CERTAIN DISCLOSURES  
14 UNDER THIS SUBSECTION.—In the case of an in-  
15 spection or disclosure under this subsection relating  
16 to the return of a partnership, S corporation, trust,  
17 or an estate, the information inspected or disclosed  
18 shall not include any supporting schedule, attach-  
19 ment, or list which includes the taxpayer identity in-  
20 formation of a person other than the entity making  
21 the return or the person conducting the inspection  
22 or to whom the disclosure is made.”.

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

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

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

6 (a) IN GENERAL.—Part I of subchapter B of chapter  
7 68 of the Internal Revenue Code of 1986 (relating to as-  
8 sessable penalties) is amended by adding at the end the  
9 following new section:

10 **“SEC. 6699. FAILURE TO FILE S CORPORATION RETURN.**

11 “(a) GENERAL RULE.—In addition to the penalty im-  
12 posed by section 7203 (relating to willful failure to file  
13 return, supply information, or pay tax), if any S corpora-  
14 tion required to file a return under section 6037 for any  
15 taxable year—

16 “(1) fails to file such return at the time pre-  
17 scribed therefor (determined with regard to any ex-  
18 tension of time for filing), or

19 “(2) files a return which fails to show the infor-  
20 mation required under section 6037,

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

1           “(b) AMOUNT PER MONTH.—For purposes of sub-  
2 section (a), the amount determined under this subsection  
3 for any month is the product of—

4                   “(1) \$85, multiplied by

5                   “(2) the number of persons who were share-  
6 holders in the S corporation during any part of the  
7 taxable year.

8           “(c) ASSESSMENT OF PENALTY.—The penalty im-  
9 posed by subsection (a) shall be assessed against the S  
10 corporation.

11           “(d) DEFICIENCY PROCEDURES NOT TO APPLY.—  
12 Subchapter B of chapter 63 (relating to deficiency proce-  
13 dures for income, estate, gift, and certain excise taxes)  
14 shall not apply in respect of the assessment or collection  
15 of any penalty imposed by subsection (a).”.

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

“Sec. 6699. Failure to file S corporation return.”.

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

1 **SEC. 10. MODIFICATION OF REQUIRED INSTALLMENT OF**  
2 **CORPORATE ESTIMATED TAXES WITH RE-**  
3 **SPECT TO CERTAIN DATES.**

4 The percentage under subparagraph (B) of section  
5 401(1) of the Tax Increase Prevention and Reconciliation  
6 Act of 2005 in effect on the date of the enactment of this  
7 Act is increased by 1.50 percentage points.