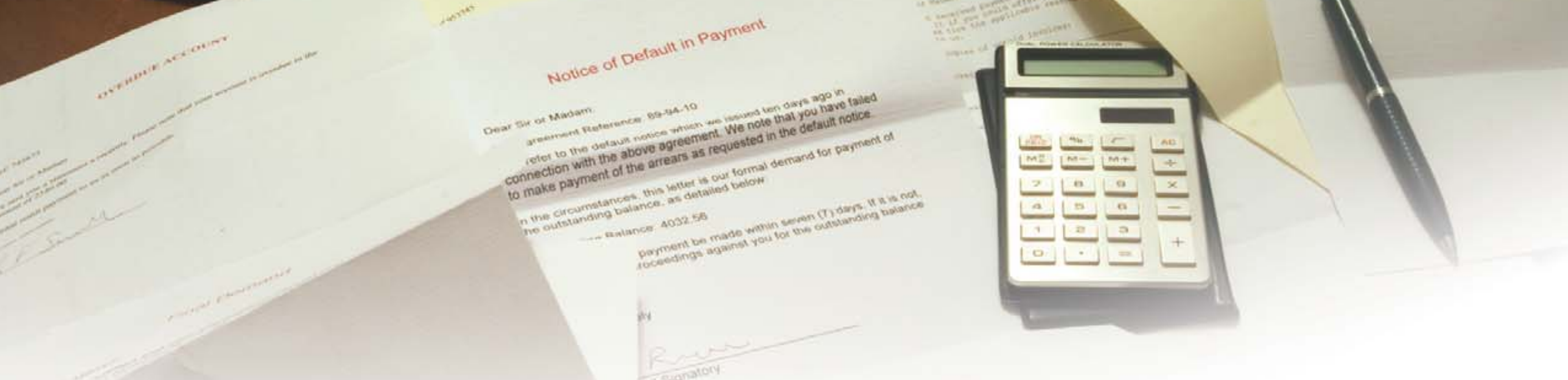

Mortgage Forgiveness Debt Relief Act of 2007 - H.R. 3648

The president signed into law December 20, 2007 bill H.R. 3648 creating temporary tax breaks on indebtedness for some troubled borrowers. Here is a brief summary of the real estate related provisions.

3-year Exclusion from Gross Income of Discharged Home Mortgage Indebtedness.
The bill amends current law, which requires taxpayers to include discharges of mortgage indebtedness as income and to pay tax on this income. This bill provides a three-year exclusion for discharges of up to two million dollars of indebtedness (on or after January 1, 2007) which is secured by a principal residence and which is incurred in the acquisition, construction, or substantial improvement of the principal residence. Instead of including this amount as income, the basis of the individual's principal residence would be reduced by the amount excluded from income under this bill.

3-year Extension of the Mortgage Insurance Deduction.
The bill extends the deduction for mortgage insurance for three years (through the end of 2010). Current law limits the deduction for mortgage insurance to payments (including Veterans Administration, Rural Housing Administration, and Federal Housing Administration insurance premiums) made prior to the end of 2007. The bill would provide that payments will qualify for this deduction so long as the contract is entered into after 2006 and before 2010.

Modification of Exclusion of Gain on Sale of a Principal Residence.
The bill amends the current law exclusion of up to $250,000 ($500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. Under current law, the sale of a home will qualify for this exclusion if the home is a taxpayer's principal residence for at least two of the five years ending on the sale or exchange. This exclusion applies even if the home was initially purchased as a second home. Under bill HR-3648, if a taxpayer moves their principal residence to a second home, the taxpayer will only be able to utilize this exclusion to the extent that it relates to the period of time when the home was first used as a principal residence.

Modification of the Qualification Tests for Cooperative Housing Corporations.
The bill would modify the requirements for qualifying for the special rules available to cooperative housing corporations. Under current law, a cooperative housing corporation must meet several requirements, including a requirement that 80 percent or more of the cooperative housing corporation is earned from the corporation's tenant-stockholders. The bill would provide two alternatives to this 80 percent rule (i.e., one based on square footage and another based on cooperative expenditures). These two alternatives will make it easier to qualify as a cooperative housing corporation.

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