CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 28, 2007

H.R. 3648

Mortgage Forgiveness Debt Relief Act of 2007

As ordered reported by the House Committee on Ways and Means on September 26, 2007

SUMMARY

H.R. 3648 would make several changes to tax law regarding principal residential property. The legislation would reduce revenues by excluding from taxation the gains on certain mortgage debt forgiven on principal residences, by extending the deduction for private mortgage insurance, and by providing a broader basis for an entity to qualify as a cooperative housing corporation. H.R. 3648 would raise revenues by reducing the exclusion from capital gains on sales of some principal residences. H.R. 3648 would also shift some corporate receipts from 2013 to 2012.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3648 would decrease revenues by $179 million in 2008 and increase revenues by $151 million over the 2008-2012 period and by $34 million over the 2008-2017 period. The Congressional Budget Office estimates that enacting the bill would not affect federal spending.

JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA)—the reduction in the exclusion for capital gains on principal residences for nonqualified use. JCT also has determined that the bill contains no intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3648 is shown in the following table.

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Exclusion of discharge of principal residence indebtedness	-179	-248	-223	-154	-81	-85	-90	-102	-106	-111	-885	-1,379
Extension of deduction for private mortgage insurance	-15	-109	-142	-134	-137	-97	-83	-52	85	114	-536	-570
Change in tests to qualify as cooperative housing corporation	-1	-2	-2	-2	-2	-3	-3	-3	-3	-3	-9	-22
Principal residence exclusion not to apply for unqualified uses	16	41	121	148	171	207	249	297	349	407	497	2,005
Increase in certain corporate estimated tax payments	0	0	0	0	1,084	-1,084	0	0	0	0	1,084	0
Total Changes	-179	-318	-246	-142	1,035	-1,062	73	140	325	407	151	34

SOURCE: Joint Committee on Taxation.

BASIS OF THE ESTIMATE

For this estimate, JCT assumes that H.R. 3648 will be enacted on October 1, 2007.

Forgiveness of Mortgage Debt

H.R. 3648 would exclude from the gross income of a taxpayer any income by reason of discharge, either in whole or in part, of debt on the taxpayers' principal residence. Such debt may include the initial loans to acquire, construct, or substantially improve the residence as well as any refinancing of debt to the extent the refinancing does not exceed the amount of the refinanced indebtedness. The exclusion from gross income would apply to discharges of indebtedness on or after January 1, 2007. JCT estimates that this provision would decrease revenues by $179 million in 2008, by $885 million over the 2008-2012 period, and by about $1.4 billion over the 2008-2017 period.

Extension of Deduction for Private Mortgage Insurance

Current law allows certain premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with financing of the taxpayer's residence to be treated as interest; they are therefore deductible. This tax treatment terminates for any amount paid or accrued after December 31, 2007. H.R. 3648 would extend the deduction through December 31, 2014. JCT estimates that this provision would decrease revenues by $15 million in 2008, by $536 million over the 2008-2012 period, and by $570 million over the 2008-2017 period.

Cooperative Housing Corporations

Current law allows tenant-stockholders in cooperative housing corporations to deduct from taxable income certain amounts paid to the corporation that represent real estate taxes and interest on indebtedness related to the property. H.R. 3648 would expand the criteria that an entity can satisfy in order to qualify as a cooperative housing corporation. JCT estimates that this provision would decrease revenues by $1 million in 2008, by $9 million over the 2008-2012 period, and by $22 million over the 2008-2017 period.

Gains on Sales of Principal Residences

Taxpayers are currently allowed to exclude up to $250,000 ($500,000 for married couples filing jointly) of the gain realized on the sale of a principal residence, generally as long as the property was used as a principal residence for at least two of the five years prior to sale. The legislation would reduce the exclusion for some residences that were not the principal residence for all of the prior five years. Such time when the property was not a principal residence would not include temporary absences due to change in place of employment, health, or other unforeseen circumstances, but would include rental of the property. H.R. 3648 would be effective for sales and exchanges after December 31, 2007. JCT estimates that this provision would increase revenues by $16 million in 2008, by $497 million over the 2008-2012 period, and by about $2.0 billion over the 2008-2017 period.

Shifts in Corporate Estimated Payments

H.R. 3648 would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated tax payments due from July through September of 2012. JCT estimates that this change would increase revenues by $1,084 million in 2012 and decrease revenues by $1,084 million in 2013. The estimate assumes enactment of H.R. 3375, which was cleared by the Congress on September 25, and also raised the portion of estimated payments due in July through September of 2012.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains one private-sector mandate as defined in the UMRA—the reduction in the exclusion for capital gains on principal residences for nonqualified use. JCT also has determined that the bill contains no intergovernmental mandates as defined in UMRA.

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