CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 25, 2008

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

As cleared by the Congress on December 18, 2007,
and signed by the President on December 20, 2007

SUMMARY

H.R. 3648 (enacted as Public Law 110-142) will make several changes to tax law primarily regarding residential property. For example, the legislation will 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 allowing volunteer emergency medical responders and firefighters to exclude certain benefits from taxation. H.R. 3648 will raise revenues by increasing or imposing penalties assessed to partnerships and S corporations that fail to properly file tax returns. The act also shifts some corporate receipts from 2013 into 2012.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3648 will decrease revenues by $162 million in 2008 and increase revenues by $123 million over the 2008-2017 period. The Congressional Budget Office estimates that enacting the bill will not affect federal spending.

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												
Exclude discharge of mortgage debt on principal residence	-173	-241	-192	0	0	0	0	0	0	0	-606	-606
Extend deduction for private mortgage insurance	-15	-109	-142	-115	-9	32	46	53	46	23	-390	-191
Modify tests to qualify as cooperative housing corporation	-1	-2	-2	-2	-2	-3	-3	-3	-3	-3	-9	-22
Exclude gain on sale of principal residence for surviving spouse	-1	-4	-4	-5	-7	-8	-8	-9	-10	-11	-20	-67
Exclude benefits for volunteer EMS and firefighters	-21	-85	-90	-71	0	0	0	0	0	0	-267	-267
Modify qualification for LIHTC	*	*	*	*	*	*	*	*	*	*	*	*
Increase the penalty for failure to file partnership returns	20	42	44	45	47	48	50	52	54	56	198	458
Impose a penalty for failure to file S corporation returns	29	76	79	82	84	87	90	94	97	100	350	818
Change corporate estimated tax payment due in 2012	0	0	0	0	912	-912	0	0	0	0	912	0
Total Changes	-162	-323	-307	-66	1,025	-756	175	187	184	165	168	123

Sources: Joint Committee on Taxation.

Notes: * = loss of less than $500,000; LIHTC = low-income housing tax credit

BASIS OF THE ESTIMATE

JCT provided all of the estimates for H.R. 3648.

Forgiveness of Mortgage Debt

H.R. 3648 will exclude from a taxpayer's gross income any acquisition indebtedness income realized when debt on the taxpayer's principal residence is discharged, either in whole or in part. Acquisition indebtedness includes 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 will apply to discharges of indebtedness on or before December 31, 2009. JCT estimates that this provision will decrease revenues by $606 million over the 2008-2010 period.

Extension of Deduction for Private Mortgage Insurance

Taxpayers can deduct certain premiums paid or accrued for qualified mortgage insurance during the taxable year in connection with acquisition indebtedness of the taxpayer's residence. This tax treatment would have terminated for any amount paid or accrued after December 31, 2007. H.R. 3648 extends the deduction through December 31, 2010. JCT estimates that this provision will decrease revenues by $191 million over the 2008-2017 period.

Cooperative Housing Corporations

Tenant-stockholders in cooperative housing corporations can 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 expands the criteria that an entity can satisfy in order to qualify as a cooperative housing corporation. JCT estimates that this provision will decrease revenues by $22 million over the 2008-2017 period.

Exclusion for Surviving Spouses

A husband and wife who file a joint tax return may exclude from gross income up to $500,000 of the gain on sale of their principal residence. Under H.R. 3648, in the event that one member of such a married couple dies, the surviving spouse will be allowed to make such an exclusion from gross income if the sale of their principal residence occurs not later than two years after the date of the deceased spouse's death. JCT estimates that this provision will decrease revenues by $67 million over the 2008-2017 period.

Exclusion of Benefits for Volunteer EMS and Firefighters

H.R. 3648 allows members of volunteer emergency medical response and firefighting organizations to exclude from gross income certain state and local tax benefits and payments received for such volunteer service. This tax treatment will terminate for taxable years beginning after December 31, 2010. JCT estimates that this provision will decrease revenues by $267 million over the 2008-2011 period.

Change in Qualification for Low-Income Housing Tax Credit

Prior to enactment of H.R. 3648, single parents who are full-time students would have their residences treated as low-income units for the purposes of receiving a low-income housing tax credit as long as the parents and children were not considered dependents. As previously written, the law would exclude the child of such a full-time student from being eligible for the housing credit, thus disqualifying their residence, but H.R. 3648 allows both the parent and the dependent child to qualify as long as neither is a dependent of a third party. JCT estimates that this change will have a negligible revenue effect over the next ten years.

Penalties for Failure to File Tax Returns

H.R. 3648 raises the penalty assessed to a partnership that fails to properly file a tax return from $50 to $85 for each month that a return is deemed late. The legislation also imposes a new penalty on each shareholder of an S corporation that fails to properly file a tax return. This penalty will also be $85 for each month that a return is deemed late. JCT estimates that these two provisions will raise revenues by about $1.3 billion over the 2008-2017 period.

Shifts in Corporate Estimated Payments

H.R. 3648 will shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets, the act will increase the portion of corporate estimated tax payments due in July through September of 2012. JCT estimates that this change will increase revenues by $912 million in 2012 and decrease revenues by $912 million in 2013.

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