

AMENDED IN SENATE FEBRUARY 25, 2008

**SENATE BILL**

**No. 1055**

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**Introduced by Senators Machado and Correa, Correa, and Oropeza**  
**(Coauthors: Senators Alquist, Denham, Steinberg, and Wiggins)**  
**(Coauthor: Assembly Member Wolk)**

January 7, 2008

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An act to add Section 17144.5 to the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 1055, as amended, Machado. Taxation: cancellation of indebtedness: mortgage debt forgiveness.

The Personal Income Tax Law, in modified conformity to federal income tax laws, requires a borrower to include in his or her income, with certain exceptions, the amount of debt canceled or discharged, as specified.

This bill would provide further conformity to federal income tax laws by conforming to specified provisions of the federal Mortgage *Forgiveness* Debt Relief Act of 2007, relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from a taxpayer's income if that debt is discharged after January 1, 2007, and before January 1, 2009.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 17144.5 is added to the Revenue and  
2 Taxation Code, to read:

3 ~~17144.5. (a) Section 108 of the Internal Revenue Code shall~~  
4 ~~apply except as otherwise provided.~~

5 ~~(b)~~

6 *17144.5. (a) Section 108 of the Internal Revenue Code, relating*  
7 *to income from discharge of indebtedness, as amended by Section*  
8 *2 of the Mortgage Forgiveness Debt Relief Act of 2007 (Public*  
9 *Law 110-142), shall apply, except as otherwise provided.*

10 ~~(e)~~

11 *(b) Section 108(a)(1)(E) of the Internal Revenue Code, as added*  
12 *by Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007*  
13 *(Public Law 110-142), is modified by substituting the phrase*  
14 *“January 1, 2009” for “January 1, 2010” contained therein.*

15 *(c) Section 108(h)(2) of the Internal Revenue Code, as added*  
16 *by Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007*  
17 *(Public Law 110-142), is modified by substituting the phrase*  
18 *“(within the meaning of section 163(h)(3)(B)” for the phrase*  
19 *“(within the meaning of section 163(h)(3)(B), applied by*  
20 *substituting ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000 (\$500,000’*  
21 *in clause (ii) thereof)” contained therein.*

22 *(d) This section shall apply to discharges of indebtedness*  
23 *occurring on or after January 1, 2007.*

24 SEC. 2. The Legislature finds and declares that the mortgage  
25 debt tax relief allowed to taxpayers in connection with the  
26 discharge of qualified principal residence indebtedness, as  
27 described in this act, serves a public purpose and does not constitute  
28 a gift of public funds within the meaning of Section 6 of Article  
29 XVI of the California Constitution.

30 SEC. 3. This act provides for a tax levy within the meaning of  
31 Article IV of the Constitution and shall go into immediate effect.

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