

AMENDED IN ASSEMBLY FEBRUARY 18, 2014

AMENDED IN ASSEMBLY FEBRUARY 11, 2014

AMENDED IN ASSEMBLY JUNE 24, 2013

AMENDED IN ASSEMBLY JUNE 12, 2013

AMENDED IN SENATE MAY 14, 2013

AMENDED IN SENATE APRIL 9, 2013

**SENATE BILL**

**No. 339**

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**Introduced by Senator Cannella**  
(Principal coauthor: Assembly Member Gray)

February 20, 2013

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An act to amend Section 17144.5 of the Revenue and Taxation Code, relating to taxation, and making an appropriation ~~therefor~~ *therefor, and declaring the urgency thereof, to take effect immediately.*

LEGISLATIVE COUNSEL'S DIGEST

SB 339, as amended, Cannella. Taxation: cancellation of indebtedness: mortgage debt forgiveness.

The Personal Income Tax Law provides for modified conformity to specified provisions of federal income tax law relating to the exclusion of the discharge of qualified principal residence indebtedness, as defined, from an individual's income if that debt is discharged after January 1, 2007, and before January 1, 2013, as provided. The federal American Taxpayer Relief Act of 2012 extended the operation of those provisions to qualified principal residence indebtedness that is discharged before January 1, 2014.

This bill would conform to the federal extension and make legislative findings and declarations regarding the public purpose served by the bill. The bill would also make a continuous appropriation from the General Fund to the Franchise Tax Board in those amounts necessary to make payments to taxpayers who have included in income and paid tax on qualified principal residence indebtedness that was discharged on and after January 1, 2013, and before January 1, 2014.

*This bill would declare that it is to take effect immediately as an urgency statute.*

Vote: 2/3. Appropriation: yes. 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 of the Revenue and Taxation  
2 Code is amended to read:

3 17144.5. (a) Section 108(a)(1)(E) of the Internal Revenue  
4 Code, is modified to provide that the amount excluded from gross  
5 income shall not exceed \$500,000 (\$250,000 in the case of a  
6 married individual filing a separate return).

7 (b) Section 108(h)(2) of the Internal Revenue Code, is modified  
8 by substituting the phrase “(within the meaning of Section  
9 163(h)(3)(B), applied by substituting ‘\$800,000 (\$400,000’ for  
10 ‘\$1,000,000 (\$500,000’ in clause (ii) thereof)” for the phrase  
11 “(within the meaning of Section 163(h)(3)(B), applied by  
12 substituting ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000 (\$500,000’  
13 in clause (ii) thereof)” contained therein.

14 (c) This section shall apply to discharges of indebtedness  
15 occurring on or after January 1, 2007, and, notwithstanding any  
16 other law to the contrary, no penalties or interest shall be due with  
17 respect to the discharge of qualified principal residence  
18 indebtedness during the 2007 or 2009 taxable year regardless of  
19 whether or not the taxpayer reports the discharge on his or her  
20 return for the 2007 or 2009 taxable year.

21 (d) The amendments made by Section 202 of the American  
22 Taxpayer Relief Act of 2012 (Public Law 112-240) to Section 108  
23 of the Internal Revenue Code shall apply.

24 SEC. 2. The amendments made by this act that conform to the  
25 amendments made by Section 202 of the American Taxpayer Relief  
26 Act of 2012 (Public Law 112-240) to Section 108 of the Internal

1 Revenue Code, apply to qualified principal residence indebtedness  
2 that is discharged on and after January 1, 2013, and before January  
3 1, 2014. The Legislature *finds and* declares that the amendments  
4 made by this act and the retroactive application contained in the  
5 preceding sentence are necessary for the public purpose of  
6 conforming state law to the amendments to the Internal Revenue  
7 Code as made by the American Taxpayer Relief Act of 2012  
8 (Public Law 112-240)—~~and, thereby prevent preventing~~ undue  
9 hardship to taxpayers whose qualified principal residence  
10 indebtedness was discharged on and after January 1, 2013, and  
11 before January 1, 2014, *and do not constitute a gift of public funds*  
12 *within the meaning of Section 6 of Article XVI of the California*  
13 *Constitution.*

14 SEC. 3. Notwithstanding Section 13340 of the Government  
15 Code, and without regard to fiscal year, there is hereby  
16 continuously appropriated from the General Fund to the Franchise  
17 Tax Board those amounts necessary to make the payments required  
18 by this act to taxpayers who have included amounts in gross income  
19 by reason of the discharge of principal residence indebtedness that  
20 was discharged on and after January 1, 2013, and before January  
21 1, 2014.

22 SEC. 4. *This act is an urgency statute necessary for the*  
23 *immediate preservation of the public peace, health, or safety within*  
24 *the meaning of Article IV of the Constitution and shall go into*  
25 *immediate effect. The facts constituting the necessity are:*

26 *In order to provide tax relief to distressed homeowners at the*  
27 *earliest possible time, it is necessary that this act take effect*  
28 *immediately.*