

**Introduced by Senator Galgiani**

January 25, 2016

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An act to amend Section 17144.5 of the Revenue and Taxation Code, relating to taxation, and declaring the urgency thereof, to take effect immediately.

**LEGISLATIVE COUNSEL'S DIGEST**

SB 907, as introduced, Galgiani. Personal income taxes: gross income exclusion: 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, 2014, as provided. The federal Tax Increase Prevention Act of 2014 extended the operation of those provisions to debt that is discharged before January 1, 2015. The federal Protecting Americans from Tax Hikes Act of 2015 extended the operation of those provisions to debt that is discharged before January 1, 2017, and provides that its discharge provisions apply to specified written agreements entered into before January 1, 2017.

This bill would conform to that additional discharge provision relating to specified written agreements, the federal extensions, discharge indebtedness for related penalties and interest, and make legislative findings and declarations regarding the public purpose served by the bill.

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

Vote:  $\frac{2}{3}$ . Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

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

SECTION 1. Section 17144.5 of the Revenue and Taxation Code is amended to read:

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

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

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

(d) (1) The amendments made by Section 202 of the American Taxpayer Relief Act of 2012 (Public Law 112-240) to Section 108 of the Internal Revenue Code shall apply.

(e)  
(2) The changes made to this section by ~~the act adding this subdivision~~ *Chapter 152 of the Statutes of 2014* shall apply to discharges of indebtedness that occur on or after January 1, 2013, and before January 1, 2014, and, notwithstanding any other law, no penalties or interest shall be due with respect to the discharge of qualified principal residence indebtedness during the 2013 taxable year, regardless of whether the taxpayer reports the discharge on his or her income tax return for the 2013 taxable year.

(e) (1) *The amendments made by Section 102 of the Tax Increase Prevention Act of 2014 (Public Law 113-295) to Section 108 of the Internal Revenue Code shall apply.*

(2) *The changes made to this section by the act adding this paragraph shall apply to discharges of indebtedness that occur on or after January 1, 2014, and before January 1, 2015, and,*

1 *notwithstanding any other law, no penalties or interest shall be*  
2 *due with respect to the discharge of qualified principal residence*  
3 *indebtedness during the 2014 taxable year, regardless of whether*  
4 *the taxpayer reports the discharge on his or her income tax return*  
5 *for the 2014 taxable year.*

6 *(f) (1) The amendments made by Section 151 of the Protecting*  
7 *Americans from Tax Hikes Act of 2015 (Public Law 114-113) to*  
8 *Section 108 of the Internal Revenue Code shall apply.*

9 *(2) Notwithstanding any other law, no penalties or interest shall*  
10 *be due with respect to the discharge of qualified principal residence*  
11 *indebtedness during the 2015 taxable year, regardless of whether*  
12 *the taxpayer reports the discharge on his or her income tax return*  
13 *for the 2015 taxable year.*

14 SEC. 2. The amendments made by this act that conform to the  
15 amendments made by Section 102 of the Tax Increase Prevention  
16 Act of 2014 (Public Law 113-295) to Section 108 of the Internal  
17 Revenue Code, apply to qualified principal residence indebtedness  
18 that is discharged on and after January 1, 2014, and before January  
19 1, 2015. The Legislature finds and declares that the amendments  
20 made by this act and the retroactive application contained in the  
21 preceding sentence are necessary for the public purpose of  
22 conforming state law to the amendments to the Internal Revenue  
23 Code as made by the Tax Increase Prevention Act of 2014 (Public  
24 Law 113-295), thereby preventing undue hardship to taxpayers  
25 whose qualified principal residence indebtedness was discharged  
26 on and after January 1, 2014, and before January 1, 2015, and do  
27 not constitute a gift of public funds within the meaning of Section  
28 6 of Article XVI of the California Constitution.

29 SEC. 3. The amendments made by this act that conform to the  
30 amendments made by Section 151 of the Protecting Americans  
31 from Tax Hikes Act of 2015 (Public Law 114-113) to Section 108  
32 of the Internal Revenue Code, apply to qualified principal residence  
33 indebtedness that is discharged on and after January 1, 2015, and  
34 before January 1, 2017. The Legislature finds and declares that  
35 the amendments made by this act and the retroactive application  
36 contained in the preceding sentence regarding debt discharged  
37 before January 1, 2016, are necessary for the public purpose of  
38 conforming state law to the amendments to the Internal Revenue  
39 Code as made by the Protecting Americans from Tax Hikes Act  
40 of 2015 (Public Law 114-113), thereby preventing undue hardship

1 to taxpayers whose qualified principal residence indebtedness was  
2 discharged on and after January 1, 2015, and before January 1,  
3 2016, and do not constitute a gift of public funds within the  
4 meaning of Section 6 of Article XVI of the California Constitution.

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

9 In order to provide tax relief to distressed homeowners at the  
10 earliest possible time, it is necessary that this act take effect  
11 immediately.