

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 907

Introduced by Senator Galgiani
(Principal coauthor: Senator Cannella)
(Principal coauthor: Assembly Member Bonta)
(Coauthor: Senator Nguyen)
(Coauthors: Assembly Members Bigelow and Gordon)

January 25, 2016

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 amended, 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~~, *agreements and the federal extensions, extensions, some of which would be applied retroactively. The bill would*

discharge indebtedness for related penalties and ~~interest~~, *interest* and *would* 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:

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, *relating to*
8 *qualified principal residence indebtedness*, is modified by
9 substituting the phrase “(within the meaning of section
10 163(h)(3)(B), applied by substituting ‘\$800,000 (\$400,000’ for
11 ‘\$1,000,000 (\$500,000’ in clause (ii) thereof)” for the phrase
12 “(within the meaning of section 163(h)(3)(B), applied by
13 substituting ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000 (\$500,000’
14 in clause (ii) thereof)” contained therein.

15 (c) This section shall apply to discharges of indebtedness
16 occurring on or after January 1, 2007, and, notwithstanding any
17 other law to the contrary, no penalties or interest shall be due with
18 respect to the discharge of qualified principal residence
19 indebtedness during the ~~2007 or 2009~~ 2007, 2009, or 2013 taxable
20 year regardless of whether or not the taxpayer reports the discharge
21 on his or her return for the ~~2007 or 2009~~ 2007, 2009, or 2013
22 taxable year.

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

26 ~~(2) The changes made to this section by Chapter 152 of the~~
27 ~~Statutes of 2014 shall apply to discharges of indebtedness that~~
28 ~~occur on or after January 1, 2013, and before January 1, 2014, and,~~
29 ~~notwithstanding any other law, no penalties or interest shall be~~
30 ~~due with respect to the discharge of qualified principal residence~~

1 indebtedness during the 2013 taxable year, regardless of whether
2 the taxpayer reports the discharge on his or her income tax return
3 for the 2013 taxable year.

4 (e)

5 (d) (1) The amendments made by Section 102 of the *federal*
6 Tax Increase Prevention Act of 2014 (Public Law 113-295) to
7 Section 108 of the Internal Revenue Code, *relating to income from*
8 *discharge of indebtedness*, shall apply.

9 (2) The changes made to this section by the act adding this
10 paragraph shall apply to discharges of indebtedness that occur on
11 or after January 1, 2014, and before January 1, 2015, and,
12 notwithstanding any other law, no penalties or interest shall be
13 due with respect to the discharge of qualified principal residence
14 indebtedness during the 2014 taxable year, regardless of whether
15 the taxpayer reports the discharge on his or her income tax return
16 for the 2014 taxable year.

17 (f)

18 (e) (1) The amendments made by Section 151 of the *federal*
19 Protecting Americans from Tax Hikes Act of 2015—(Public
20 *Division Q of Public Law 114-113*) to Section 108 of the Internal
21 Revenue Code, *relating to income from discharge of*
22 *indebtedness*, shall apply.

23 (2) Notwithstanding any other law, no penalties or interest shall
24 be due with respect to the discharge of qualified principal residence
25 indebtedness during the 2015 taxable year, regardless of whether
26 the taxpayer reports the discharge on his or her income tax return
27 for the 2015 taxable year.

28 SEC. 2. (a) The amendments made by this act that conform
29 to the amendments made by Section 102 of the *federal* Tax Increase
30 Prevention Act of 2014 (Public Law 113-295) to Section 108 of
31 the Internal Revenue Code, *relating to income from discharge of*
32 *indebtedness*, apply to qualified principal residence indebtedness
33 that is discharged on and after January 1, 2014, and before January
34 1, 2015. The

35 (b) The Legislature finds and declares that the amendments
36 made by this act and the retroactive application contained in the
37 preceding sentence are necessary for the public purpose of
38 conforming state law to the amendments to the Internal Revenue
39 Code as made by the *federal* Tax Increase Prevention Act of 2014
40 (Public Law 113-295), thereby preventing undue hardship to

1 taxpayers whose qualified principal residence indebtedness was
2 discharged on and after January 1, 2014, and before January 1,
3 2015, 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. 3. (a) The amendments made by this act that conform
6 to the amendments made by Section 151 of the *federal* Protecting
7 Americans from Tax Hikes Act of 2015 (~~Public~~ *(Division Q of*
8 *Public Law 114-113)* to Section 108 of the Internal Revenue Code,
9 *relating to income from discharge of indebtedness*, apply to
10 qualified principal residence indebtedness that is discharged on
11 and after January 1, 2015, and before January 1, ~~2017~~. ~~The 2017,~~
12 *except for an discharge of qualified principal residence*
13 *indebtedness that is subject to an arrangement that is entered into*
14 *and evidenced in writing before January 1, 2017, in which case*
15 *the amendments made by this act to conform to the amendments*
16 *made by Section 151 of the Protecting Americans from Tax Hikes*
17 *Act of 2015 (Divisions Q of Public Law 114-113) apply to principal*
18 *residence indebtedness that is discharged after January 1, 2017.*

19 (b) The Legislature finds and declares that the amendments
20 made by this act and the retroactive application contained in the
21 preceding sentence regarding debt discharged before January 1,
22 2016, are necessary for the public purpose of conforming state law
23 to the amendments to the Internal Revenue Code as made by the
24 *federal* Protecting Americans from Tax Hikes Act of 2015 (~~Public~~
25 *(Division Q of Public Law 114-113)*, thereby preventing undue
26 hardship to taxpayers whose qualified principal residence
27 indebtedness was discharged on and after January 1, 2015, and
28 before January 1, 2016, and do not constitute a gift of public funds
29 within the meaning of Section 6 of Article XVI of the California
30 Constitution.

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

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

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