

AMENDED IN ASSEMBLY JUNE 23, 2016

AMENDED IN SENATE MARCH 28, 2016

**SENATE BILL**

**No. 907**

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**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

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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 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 and the federal extensions, some of

which would be applied retroactively. The bill would discharge indebtedness for related penalties and 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, 2009, or 2013 taxable year regardless  
20 of whether or not the taxpayer reports the discharge on his or her  
21 return for the 2007, 2009, or 2013 taxable year.

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

26 (2) The changes made to this section by the act adding this  
27 paragraph shall apply to discharges of indebtedness that occur on  
28 or after January 1, 2014, and before January 1, 2015, and,  
29 notwithstanding any other law, no penalties or interest shall be

1 due with respect to the discharge of qualified principal residence  
2 indebtedness during the 2014 taxable year, regardless of whether  
3 the taxpayer reports the discharge on his or her income tax return  
4 for the 2014 taxable year.

5 (e) (1) The amendments made by Section 151 of the federal  
6 Protecting Americans from Tax Hikes Act of 2015 (Division Q of  
7 Public Law 114-113) to Section 108 of the Internal Revenue Code,  
8 relating to income from discharge of indebtedness, 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. (a) The amendments made by this act that conform  
15 to the amendments made by Section 102 of the federal Tax Increase  
16 Prevention Act of 2014 (Public Law 113-295) to Section 108 of  
17 the Internal Revenue Code, relating to income from discharge of  
18 indebtedness, apply to qualified principal residence indebtedness  
19 that is discharged on and after January 1, 2014, and before January  
20 1, 2015.

21 (b) The Legislature finds and declares that the amendments  
22 made by this act and the retroactive application contained in the  
23 preceding sentence are necessary for the public purpose of  
24 conforming state law to the amendments to the Internal Revenue  
25 Code as made by the federal Tax Increase Prevention Act of 2014  
26 (Public Law 113-295), thereby preventing undue hardship to  
27 taxpayers whose qualified principal residence indebtedness was  
28 discharged on and after January 1, 2014, and before January 1,  
29 2015, and do not constitute a gift of public funds within the  
30 meaning of Section 6 of Article XVI of the California Constitution.

31 SEC. 3. (a) The amendments made by this act that conform  
32 to the amendments made by Section 151 of the federal Protecting  
33 Americans from Tax Hikes Act of 2015 (Division Q of Public Law  
34 114-113) to Section 108 of the Internal Revenue Code, relating to  
35 income from discharge of indebtedness, apply to qualified principal  
36 residence indebtedness that is discharged on and after January 1,  
37 2015, and before January 1, 2017, except for ~~an~~ any discharge of  
38 qualified principal residence indebtedness that is subject to an  
39 arrangement that is entered into and evidenced in writing before  
40 January 1, 2017, in which case the amendments made by this act

1 ~~to~~ *that* conform to the amendments made by Section 151 of the  
2 Protecting Americans from Tax Hikes Act of 2015—(Divisions  
3 (Division Q of Public Law 114-113) apply to *qualified* principal  
4 residence indebtedness that is discharged after January 1, 2017.

5 (b) The Legislature finds and declares that the amendments  
6 made by this act and the retroactive application contained in the  
7 preceding sentence regarding debt discharged before January 1,  
8 2016, are necessary for the public purpose of conforming state law  
9 to the amendments to the Internal Revenue Code as made by the  
10 federal Protecting Americans from Tax Hikes Act of 2015  
11 (Division Q of Public Law 114-113), thereby preventing undue  
12 hardship to taxpayers whose qualified principal residence  
13 indebtedness was discharged on and after January 1, 2015, and  
14 before January 1, 2016, and do not constitute a gift of public funds  
15 within the meaning of Section 6 of Article XVI of the California  
16 Constitution.

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

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