

Senate Finance Committee Releases Text of Discharge of Indebtedness Relief

On Tuesday, January 27, 2009, the Senate Finance Committee (SFC) marked up the stimulus bill (“The American Recovery and Reinvestment Act of 2009”), and added limited tax relief for income that arises from a discharge of indebtedness. Unfortunately, the SFC only offered relief to taxpayers who, in 2009 or 2010, repurchase their debt for cash, or whose debt is purchased for cash by related parties, and not taxpayers who exchange new debt for their existing debt (debt-for-debt exchanges) or who modify their existing debt. And, for such cash purchases, discharge of indebtedness income would be deferred (until 2011) and spread over an 8-year period. Today, the language of the relief was released (see pages 57-58 of the [Bill](#)).

At the mark-up of the bill at the SFC, Senator Conrad attempted to expand the relief to a wider range of discharge of indebtedness, most notably debt-for-debt exchanges and modifications of debt instruments. However, the attempt was rejected in light of the greater revenue costs of a broader proposal.

There still is substantial interest in expanding tax relief for discharge of indebtedness. Senators Conrad (D-ND) and Ensign (R-NV) reportedly plan to offer an amendment to the bill on the floor of the Senate that will fully exclude half of any income that arises from a taxpayer’s purchase of its own debt from federal income tax, while requiring recognition of the other half over the 8-year period proposed in the SFC Bill.

After the stimulus bill passes the Senate, it will need to be reconciled with the House version, which currently does not include any relief for discharge of indebtedness. Congress intends to complete its work on the stimulus bill by February 16 (President’s Day). We will alert you to further developments.

If you have any questions, please contact a member of the [Tax & Benefits Department](#).