Mortgage Debt Forgiveness Act Extension Keeps Short Sales in Vogue

Posted by Andrews Law

Short Sales and the Mortgage Debt Forgiveness Act

Relax, your short sales will remain tax free– you won't face a massive tax bill as a result if you complete the sale in 2013.

As part of the fiscal cliff deal, the Mortgage Debt Forgiveness Act of 2007 has been extended for another year. Normally, debt forgiven because of a short sale would be deemed income for tax purposes. For instance, if somebody owes $200,000 on their mortgage and their lenders agrees to a $150,000 short sale, $50,000 in debt is forgiven. This would have been assessed as taxable without an extension of the law.

Short Sale Market

According to RealtyTrac data, short sales were 22% of all residential short sales in the third quarter of 2012, a 17% year-over-year increase. A failure to reach an extension to this debt forgiveness law would have been disastrous to the housing recovery.

Short sales are an essential option for ridding the negative equity that consumes the real estate market. Although not without consequences, they tend to have less negative credit impact than foreclosure and allow you to exercise greater control over the sale of your property.

To navigate a short sale successfully you should have a knowledgeable real estate attorney and real estate agent on your team.

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