

Mortgage Debt Forgiveness Tips from the IRS

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Although “tax day” (April 17th this year) has passed, I thought it was still important to inform you of the Mortgage Debt Forgiveness Tips from the [Internal Revenue Service \(IRS\)](#). While canceled debt is typically a taxable event, there are some exceptions. One exception relates to homeowners whose mortgage debt is forgiven (partially or entirely) during the tax years 2007 – 2012.

According to the IRS website, below are 10 facts about Mortgage Debt Forgiveness:

1. Normally, debt forgiveness results in taxable income. However, under the [Mortgage Forgiveness Debt Relief Act of 2007](#), you may be able to exclude up to \$2 million of debt forgiven on your principal residence.
2. The limit is \$1 million for a married person filing a separate return.
3. You may exclude debt reduced through mortgage restructuring, as well as mortgage debt forgiven in a foreclosure.
4. To qualify, the debt must have been used to buy, build or substantially improve your principal residence and be secured by that residence.
5. Refinanced debt proceeds used for the purpose of substantially improving your principal residence also qualify for the exclusion.
6. Proceeds of refinanced debt used for other purposes – for example, to pay off credit card debt – do not qualify for the exclusion.
7. If you qualify, claim the special exclusion by filling out Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attach it to your federal income tax return for the tax year in which the qualified debt was forgiven.
8. Debt forgiven on second homes, rental property, business property, credit cards or car loans does not qualify for the tax relief provision. In some cases, however, other tax relief provisions – such as insolvency – may be applicable. IRS Form 982 provides more details about these provisions.
9. If your debt is reduced or eliminated you normally will receive a year-end statement, Form 1099-C, Cancellation of Debt, from your lender. By law, this form must show the amount of debt forgiven and the fair market value of any property foreclosed.
10. Examine the Form 1099-C carefully. Notify the lender immediately if any of the information shown is incorrect. You should pay particular attention to the amount of debt forgiven in Box 2 as well as the value listed for your home in Box 7.

For more information about the Mortgage Forgiveness Debt Relief Act of 2007, visit www.irs.gov, IRS Publication 4681, Canceled Debts, Foreclosures, Repossessions and Abandonments, is also an excellent resource.

*If you live in the area of Surprise, Arizona, contact **The Dodds Law Firm, PLC**, at [623-209-8923](tel:623-209-8923). **The Dodds Law Firm, PLC**, serves clients primarily in the areas of Fair Debt Collection Practices Act violations, Chapter 7 and 13 bankruptcies, and issues of Unfair or Deceptive Business Practices. Mr. Dodds and his staff know how to listen carefully, and how to explain the*

law and procedures involved in a legal matter, as well as your rights and options, so that you can make informed choices.