

Ten Facts for Mortgage Debt Forgiveness

If your mortgage debt is partly or entirely forgiven during tax years 2007 through 2012, you may be able to claim special tax relief and exclude the debt forgiven from your income. Here are 10 facts the IRS wants you to know 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 IRS.gov. A good resource is IRS Publication 4681, Canceled Debts, Foreclosures, Repossessions and Abandonments. Taxpayers may obtain a copy of this publication and Form 982 either by downloading them from IRS.gov or by calling 800-TAX-FORM (800-829-3676).