

# Mortgage Workouts Now Tax-Free for Many Homeowners

## Mortgage Forgiveness Debt Relief Act of 2007

IRS – February 20, 2009 (<http://www.irs.gov/individuals/article/0,,id=179414,00.html>)

The Mortgage Debt Relief Act of 2007 generally allows taxpayers to exclude income from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief. This provision applies to debt forgiven in calendar years 2007 through 2012. To claim this exclusion, you must attach Form 982 to your federal income tax return.

### **What is the Mortgage Forgiveness Debt Relief Act of 2007?**

The Mortgage Forgiveness Debt Relief Act of 2007 was enacted on December 20, 2007 (see News Release IR-2008-17). Generally, the Act allows exclusion of income realized as a result of modification of the terms of the mortgage, or foreclosure on your principal residence.

### **What does exclusion of income mean?**

Normally, debt that is forgiven or cancelled by a lender must be included as income on your tax return and is taxable. The Mortgage Forgiveness Debt Relief Act allows you to exclude certain cancelled debt on your principal residence from income. Debt reduced through mortgage restructuring and mortgage debt forgiven in connection with a foreclosure, qualifies for the relief.

### **Does the Mortgage Forgiveness Debt Relief Act apply to all forgiven or cancelled debts?**

No. The Act applies only to forgiven or cancelled debt used to buy, build or substantially improve your principal residence, or to refinance debt incurred for those purposes.

### **Does the Mortgage Forgiveness Debt Relief Act apply to debt incurred to refinance a home?**

Debt used to refinance your home qualifies for this exclusion, but only to the extent that the principal balance of the old mortgage, immediately before the refinancing, would have qualified. For more information, including an example, see Publication 4681.

### **How long is this special relief in effect?**

It applies to qualified principal residence indebtedness forgiven from 2007 through 2012.

### **If the forgiven debt is excluded from income, do I have to report it on my tax return?**

Yes. The amount of debt forgiven must be reported on Form 982 and attached to your tax return.

### **Where can I get this form?**

You can download the form at [IRS.gov](http://IRS.gov), or call 1-800-829-3676.

### **How do I know or find out how much was forgiven?**

Your lender should send a Form 1099-C, Cancellation of Debt.

### **Can I exclude debt forgiven on my second home, credit card or car loans?**

Not under this provision. Only cancelled debt used to buy, build or improve your principal residence or refinance debt incurred for those purposes qualifies. See Publication 4681 for further details.

### **If part of the forgiven debt doesn't qualify for exclusion from income under this provision, is it possible that it may qualify for exclusion under a different provision?**

Yes. The forgiven debt may qualify under the insolvency exclusion. Normally, you are not required to include forgiven debts in income to the extent that you are insolvent. You are insolvent when your total liabilities exceed your total assets. If you believe you qualify for any of these exceptions, see the instructions for Form 982. Publication 4681 discusses each of these exceptions and includes examples.