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10 TIPS ON MORTGAGE DEBT FORGIVENESS

By Victor Sy, CPA

1. Debt forgiveness from foreclosures and credit card reductions result in **taxable income**.
2. However, the Mortgage Forgiveness Debt Relief Act allows you to **exclude up to \$2 million** (\$1 million for a married person filing separately) of debt forgiven on your **principal residence**.
3. This **special tax relief** applies to debts that are partly or entirely forgiven during tax years **2007 – 2012**.
4. Taxpayers may exclude debt reduced through mortgage **restructuring**, as well as mortgage debt forgiven in a **foreclosure** or **short sale**.
5. To qualify, the debt must have been used to **buy, build or substantially improve your principal residence and be secured by that residence**. Refinanced debt proceeds used to substantially improve your principal residence also qualify for the exclusion.
6. Refinance proceeds used for **other purposes** (pay off credit cards, buy a car, travel) do not qualify for the exclusion.
7. Debt forgiven on **second homes, business property, credit cards or car loans** does not qualify for the tax-relief provision. In some cases, however, other tax relief provisions, (for example, insolvency), may be available. See Form 982 for details.
8. If your debt is reduced or eliminated, you will receive a **year-end statement Form 1099-C**, from your lender. This form shows the amount of debt forgiven and the fair market value of any property foreclosed.
9. **Check out the amount of debt forgiven in Box 2** and the value listed for your home in Box 7. Notify your lender immediately, in writing, if any of the information shown is incorrect.
10. **Reduce your Tax Attributes** due to Discharge of Indebtedness by filing Form 982.