

Sy Accountancy Corporation

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

10 FACTS ON DEBT FORGIVENESS ON YOUR MAIN RESIDENCE MORTGAGE

By Victor Sy, CPA

1. As a general rule, debt forgiveness results in **taxable income**.
2. You may be able to **exclude debt forgiven on your principal residence** under the Mortgage Forgiveness Debt Relief Act.
3. The debt must **be secured by your main residence**.
4. The debt must have been used to **buy, build, or substantially improve your principal residence**
5. Debt forgiven on **second homes, rental property, business property, do not qualify** for this tax relief provision (but may qualify for other tax relief).
6. **Refinanced debt** qualifies if proceeds are used to improve your principal residence.
7. Refinance debt proceeds used for **other purposes** (travel, buy a car, or pay off credit card debt) do **not** qualify for the exclusion.
8. The **exclusion amount** is limited to \$2 million (\$1 million for a married person filing a separate return).
9. 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.
10. If your debt is reduced or eliminated, you normally will receive a year-end statement, Form **1099-C**, Cancellation of Debt, from your lender. The form shows the amount of debt forgiven and the fair market value of any property foreclosed. Examine 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.