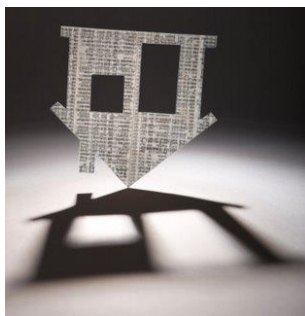


# The Mortgage Forgiveness Debt Relief Act and Debt Cancellation

*Internal Revenue System*



***Do you have any mortgage debt that was forgiven or cancelled in 2007 through 2014, if so, you may be in luck!***

Debt forgiven or cancelled by your lender is taxable income. The Mortgage Forgiveness Debt Relief Act, enacted in 2007, excludes debt forgiven or cancelled in connection with your principal residence as taxable income. If your mortgage is restructured, or part of your mortgage debt is forgiven through a foreclosure, that debt may be excluded as taxable income.

## ***What debt qualifies under this Act?***

The Act applies only to debt “used to buy, build or substantially improve your principal residence, or to refinance debt incurred for those purposes.”

For example, if you take a mortgage out to buy a home, and later take out a second mortgage to add a garage to your home, the outstanding principal on both the first and second mortgage are “qualified principal residence indebtedness,” and excluded as taxable income if some or all of the remaining debt is forgiven or cancelled by the lender.

However, let’s say you take out a second mortgage to pay off personal credit cards, pay for college tuition, or pay for medical expenses, that debt is not qualified principal residence debt because it was not used to buy, build or substantially improve your principal residence.

This Act currently extends to mortgage debt forgiven or cancelled during 2007 through 2014. Congress has not yet extended the budget to include years 2015 or 2016.

## ***Is there a limit to how much debt is excluded as taxable income under this Act?***

Yes, the maximum amount of qualified principal residence indebtedness is \$2 million or \$1 million if you are married and filing separately. The Act applies to debt forgiven or cancelled in 2007 through 2014, and only applies to discharged debt directly related to the depreciation of your home’s value or your financial condition. The debt must also be in connection with your principal residence. Therefore, any debt forgiven or cancelled on your second home, rental property, business property, credit cards or car loans are not covered under this Act.



## ***How is the debt reported to the IRS?***

If the amount of forgiven indebtedness income is \$600 or more, the lender must report that income to the IRS. The lender will fill out a Form 1099-C and report the amount of debt cancelled. Therefore, if any of your loan is not fully satisfied, and the lender cancels the unsatisfied debt, that lender must report debt of \$600 or more to the IRS as taxable income. You will receive a year-end statement, Form 1099-C, from your lender showing the amount of debt forgiven and the fair market value of your property.

The IRS urges borrowers to 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 (Box 2) and the value listed for your home (Box 7).



*How do I make a claim under the Mortgage Forgiveness Debt Relief Act?*

If you qualify, you must fill out Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attach it to your federal income tax return for the year. See Form 982 for further details.

For more information about the Mortgage Forgiveness Debt Relief Act of 2007, visit the IRS Web site at [IRS.gov](http://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 from [IRS.gov](http://IRS.gov) or by calling 800-TAX-FORM (800-829-3676).