



Mortgage Debt Forgiveness

IRS TAX TIP 2009-44

If your mortgage debt is partly or entirely forgiven during tax years 2007 – 2012, you may be able to claim special tax relief and exclude the debt forgiveness income.

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. The limit is \$1 million for a married person filing a separate return.

Taxpayers may exclude debt reduced through mortgage restructuring, as well as mortgage debt forgiven in a foreclosure. 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 for the purpose of substantially improving your principal residence also qualify for the exclusion. However, proceeds of refinanced debt used for other purposes (for example, to pay off credit card debt) do not qualify for the exclusion.

If you qualify, you claim the special exclusion by filling out Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attaching it to your federal income tax return for the year.

Debt forgiven on second homes, rental property, business property, credit cards or car loans does not qualify for the new tax-relief provision. In some cases, however, other tax relief provisions, (for example, insolvency), may be available. See Form 982 for details.

If your debt is reduced or eliminated you will receive a year-end statement, Form 1099-C, from your lender. By law, this form must show the amount of debt forgiven and the fair market value of any property foreclosed.

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).

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

Links:

[Form 982](#)

[Form 1099-C](#)

Page Last Reviewed or Updated: March 05, 2009