

for Additional Information

All of the following forms and publications can be found on the Internal Revenue Service Internet site (www.irs.gov).

For a free paper copy of any listed form or publication, please call 1-800-829-3676 (1-800-TAX-FORM).

For additional questions about the tax relief and your responsibilities, you can call 1-800-829-1040.

Forms and Publications that may be of assistance:

- **Form 982**, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)
- **Form 1099-A**, Acquisition or Abandonment of Secured Property
- **Form 1099-C**, Cancellation of Debt
- **Publication 523**, Selling Your Home
- **Publication 525**, Taxable and Nontaxable Income
- **Publication 544**, Sales and Other Disposition of Assets
- **Publication 551**, Basis of Assets
- **Publication 908**, Bankruptcy Tax Guide
- **Publication 4681**, Canceled Debts, Foreclosures, Repossessions and Abandonments

FREE TAX RETURN ASSISTANCE

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Sites offer free tax return preparation to individuals having low to moderate income. To find free tax help near you, call IRS at **1-800-829-1040** or AARP TaxAide at **1-888-227-7669**.



Department of the Treasury
Internal Revenue Service

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the **Life Cycle** series

A series of informational publications designed to educate taxpayers about the tax impact of significant life events.

Tax Relief for Struggling Homeowners

*Overview of the Mortgage
Forgiveness Debt Relief Act of 2007
and Frequently Asked Questions*

**Tax Benefits, Credits,
and Other Information.**

This brochure is intended to inform homeowners whose mortgage debt was partly or entirely forgiven about a special tax relief provision. These homeowners may be eligible to exclude the amount forgiven from their taxable income.

Mortgage Workouts, Now Tax-Free for Many Homeowners

Homeowners whose mortgage debt was partly or entirely forgiven may be able to claim special tax relief by filling out Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attaching it to their federal income tax return.

Normally, debt forgiveness results in taxable income. But under the Mortgage Forgiveness Debt Relief Act of 2007, taxpayers may exclude certain debt forgiven on their principal residence if the balance of their loan was less than \$2 million (\$1 million for a married person filing a separate return).

See the instructions for Form 982 for more details.

Qualified Principal Residence Indebtedness

The debt must have been used to buy, build or substantially improve the taxpayer's principal residence and must have been secured by that residence. Debt used to refinance qualifying debt is also eligible for the exclusion, but only up to the amount of the old mortgage principal, just before the refinancing.

Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, may qualify for this relief. In most cases, eligible homeowners only need to fill out a few lines on Form 982.

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 kinds of tax relief, based on insolvency, for example, may be available.

See Form 982 for details.

Form 1099-C, Cancellation of Debt

Borrowers whose debt is reduced or eliminated receive a year-end statement (Form 1099-C) from

their lender. The lender is required to furnish this form to the borrower by January 31. By law, this form must show the amount of debt forgiven and the fair market value of any property given up through foreclosure.

Borrowers need to check the Form 1099-C carefully. Notify the lender immediately if any of the information shown is incorrect. Borrowers should pay particular attention to the amount of debt forgiven (Box 2) and the value listed for their home (Box 7).

Form 1099-A, Acquisition or Abandonment of Secured Property

Borrowers whose property is foreclosed on by their lender may receive a Form 1099-A. If the home was foreclosed on or repossessed, it is considered a sale of the property. The borrower may have a reportable gain on the disposition. If in the same calendar year, debt is canceled in connection with a foreclosure or abandonment, the lender has the option of issuing a Form 1099-A and a Form 1099-C or combining all the required information on a Form 1099-C only.

See Publication 523, Selling Your Home, for more information.

FREQUENTLY ASKED QUESTIONS ON THE MORTGAGE FORGIVENESS DEBT RELIEF ACT

What is the Mortgage Forgiveness Debt Relief Act of 2007?

The Mortgage Forgiveness Debt Relief Act of 2007 was enacted on December 20, 2007. 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 that mean?

Usually, debt that is forgiven or canceled by a lender must be included as income on your tax return and is taxable. The Mortgage Forgiveness Debt Relief Act of 2007 allows you to exclude certain canceled debt on your principal residence from income.

Does the Mortgage Forgiveness Debt Relief Act of 2007 apply to all forgiven or cancelled debts?

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

What about refinanced homes?

Debt used to refinance your home qualifies for this exclusion, but only up to the extent that the principal balance of the old mortgage, immediately before the refinancing, would have qualified.

Does this provision apply for the 2007 tax year only?

The Mortgage Forgiveness Debt Relief Act of 2007 applies to qualified debt forgiven in 2007, 2008 or 2009. The Emergency Economic Stabilization Act of 2008 extended the treatment through the year 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 the Form 982 must be attached to your tax return.

Do I have to complete the entire Form 982?

Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Adjustment), is used for other purposes in addition to reporting the exclusion of forgiveness of qualified principal residence indebtedness. If you are using the form only to report the exclusion of forgiveness of qualified principal residence indebtedness as the result of foreclosure on your principal residence, you only need to complete lines 1e and 2. If you kept ownership of your home and modification of the terms of your mortgage resulted in the forgiveness of qualified principal residence indebtedness, complete lines 1e, 2, and 10b. Attach the Form 982 to your tax return.

Where can I get this form?

You can download the form at IRS.gov, or call 1-800-829-3676. If you call to order, please allow 7-10 days for delivery.

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

Your lender should send a Form 1099-C, Cancellation of Debt, by January 31. The amount of debt forgiven or cancelled will be shown in box 2. If this debt is all qualified principal residence indebtedness, the amount shown in box 2 will generally be the amount that you enter on lines 2 and 10b, if applicable, on Form 982.

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

Not under this provision. Only canceled debt used to buy, build or improve your principal residence or refinance debt incurred for those purposes qualifies for this exclusion.

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, a taxpayer is not required to include forgiven debts in income to the extent that the taxpayer is insolvent. A taxpayer is insolvent when his or her total liabilities exceed his or her total assets. The forgiven debt may also qualify for exclusion if the debt was discharged in a Title 11 bankruptcy proceeding or if the debt is qualified farm indebtedness or qualified real property business indebtedness. If you believe you qualify for any of these exceptions, see the instructions for Form 982.

Is there a limit on the amount of forgiven qualified principal residence indebtedness that can be excluded from income?

The maximum amount you can treat as qualified principal residence indebtedness is \$2 million (\$1 million if married filing separately).