



Legal Aid Society of Orange County
Low Income Taxpayer Clinic (LITC)
2101 N. Tustin Ave., Santa Ana, CA 92705

CANCELLATION OF DEBT: TAX RELIEF FOR TAXPAYERS ON FORECLOSED PROPERTIES

New Law: The Mortgage Forgiveness Debt Relief Act of 2007 (signed Dec 20, 2007).

If your home decreases in value and your lender forgives a portion of your mortgage, the IRS cannot treat the amount forgiven as income that can be taxed.

Effective Years: The new law will cover tax years for 2007 through 2012.

Requirements:

1. The home was your primary residence.
2. The mortgage secured on the home only was for the purchase, to build, or to substantially improve your principle place of residence.
3. The balance of loan must be less than \$2 million dollars.

Cannot Be Applied To:

1. Second homes, rental and business properties, credit cards, and car loans.
2. The debts used to refinance your home qualifies for the exclusion, but only up to the amount the refinancing covered the old mortgage. If additional money was taken out of the home, it must have been used to substantially improve the primary residence.
3. The taxpayer may still qualify for cancellation of debt based on “**insolvency**”.

What You Can Do as a Taxpayer:

1. Immediately notify your lender of your new address after you have moved out of the foreclosed property.
2. Check with the lender to determine if they mailed you **Form 1099-C**.
 - a. For debt cancelled in 2008, the lender was required to provide this form to you by Jan. 31, 2009.
 - b. By law, this form must show the amount of debt forgiven and the fair market value of any property given up through foreclosure.
2. Check to make sure that the information shown on **Form 1099-C** is accurate.
 - a. Notify the lender immediately if any of the information shown is incorrect.
 - b. You should pay particular attention to the amount of debt forgiven (Box 2) and the value listed for the home (Box 7).
3. Complete the newly-revised **Form 982** (lines 1e, 2, and 10) and attach it to your federal income tax return. The revised version of Form 982 is available on the IRS site at: <http://www.irs.gov/pub/irs-pdf/f982.pdf>

**FOR ADDITIONAL INFORMATION, PLEASE CONTACT THE LEGAL AID SOCIETY AT 714-571-5200 OR
1-800- 834-5001.**