

Mortgage Forgiveness Debt Relief Act of 2007



What is the Mortgage Forgiveness Debt Relief Act ?

- The Mortgage Forgiveness Debt Relief Act of 2007 was enacted on December 20, 2007
- The Act allows taxpayers to exclude from income certain canceled debt on their principal residences.

Mortgage Forgiveness

The new law includes:

- Important provisions for struggling homeowners whose home has been foreclosed or terms of mortgage modified
- Applies to qualified debt forgiven in 2007, 2008 or 2009

Cancellation of Debt

- Borrowers whose debt is reduced or eliminated receive a Form 1099-C, Cancellation of Debt, from their lender.
- Form 1099-C, box 2 will show the amount of debt forgiven or canceled.

Form 1099-C

CORRECTED (if checked)

| | | | | | |
|--|--------------------------------|---|---------------------------------------|-----------------------------------|--|
| CREDITOR'S name, street address, city, state, and ZIP code | | | OMB No. 1545-1424 | 2008 Form 1099-C | Cancellation of Debt |
| CREDITOR'S federal identification number | DEBTOR'S identification number | | 1 Date canceled | | |
| DEBTOR'S name | | 3 Interest if included in box 2 \$ | | | Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported. |
| Street address (including apt. no.) | | 5 Debt description | | | |
| City, state, and ZIP code | | | | | |
| Account number (see instructions) | | 6 Bankruptcy (if checked) <input type="checkbox"/> | 7 Fair market value of property \$ | | |

Form **1099-C**

(keep for your records)

Department of the Treasury - Internal Revenue Service



Qualifying Cancellation of Debt

- 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 a principal residence is also eligible for the exclusion, but only up to the amount of the old mortgage principal, just before the refinancing, would have qualified.

How to Report

- The amount of debt forgiven must be reported on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)
- File Form 982 with the tax return.

Form 982

| | | |
|---|--|---|
| Form 982 (Rev. February 2008) Department of the Treasury Internal Revenue Service | Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) ▶ Attach this form to your income tax return. | OMB No. 1545-0046 Attachment Sequence No. 94 |
| Name shown on return | | Identifying number |
| Part I General Information (see instructions) | | |
| 1 Amount excluded is due to (check applicable box(es)): | | |
| a Discharge of indebtedness in a title 11 case | <input type="checkbox"/> | |
| b Discharge of indebtedness to the extent insolvent (not in a title 11 case) | <input type="checkbox"/> | |
| c Discharge of qualified farm indebtedness | <input type="checkbox"/> | |
| d Discharge of qualified real property business indebtedness | <input type="checkbox"/> | |
| e Discharge of qualified principal residence indebtedness | <input type="checkbox"/> | |
| 2 Total amount of discharged indebtedness excluded from gross income. | 2 | |
| 3 Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| Part II Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.) | | |
| Enter amount excluded from gross income: | | |
| 4 For a discharge of qualified real property business indebtedness, applied to reduce the basis of depreciable real property | 4 | |



Mortgage Relief Act

Borrowers are urged to:

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

Mortgage Debt Relief Exclusions

Exclusions that may result in part or all of the income from the cancellation of debt being nontaxable include:

- Bankruptcy
- Insolvency
- Certain Farm Debts
- Non-recourse loans
- Qualified Principal Residence Indebtedness

The rules involved in these exclusions are complex. It is recommended that taxpayers who believe they may qualify for one of these exceptions seek the assistance of a tax professional.

New Law Can Help Taxpayers

- The Internal Revenue Service is encouraging those with mortgage problems to seek assistance with their Federal taxes.
- Qualified taxpayers may be able to exclude income related to canceled debt on a principal residence.
- This can help families, who are already in financial difficulty, by avoiding a large tax bill.

For Additional Information

Additional Resources:

- [Publication 4681](#) Canceled Debts Foreclosures, Repossessions, and Abandonments (for individuals)
- [Form 982](#), Reduction of Tax Attributes Due to Discharge of Indebtedness
- [1099-C](#), Cancellation of Debt
- IRS.gov - The Mortgage Forgiveness Debt Relief Act of 2007. See [News Release IR-2008-17](#) and FAQs on the [Mortgage Forgiveness Debt Relief Act](#)

For Tax Help

- Visit the IRS Web site – [IRS.gov](https://www.irs.gov) for the most up to date information
- Speak with an IRS Representative at 1-800-829-1040
- Visit a Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) Site
- Visit an IRS Taxpayer Assistance Center (TAC)
- If you are having difficulty resolving a tax problem through normal IRS channels, the [Taxpayer Advocate Service](#) may be able to help. Contact TAS toll-free case intake line at 1-877-777-4778, TTY/TDD 1-800-829-4059.
- Seek assistance from a tax professional