

Are you eligible for mortgage forgiveness debt relief?

Usually, debt that is forgiven or cancelled by a lender such as a mortgage company, must be included on your tax return as taxable income. For example, if you are unable to pay your house payment the mortgage company will foreclose on your home and sell your house to the highest bidder. If the bid price of the house is greater than what you owe, you don't have any debt to forgive. If the bid price of the house is less than what you owe the mortgage company, the difference is debt forgiveness and must then be included in your income. In January of the following year, the mortgage company will send you a form 1099-C that shows the amount of your mortgage that was forgiven and must be included in your income.

The Mortgage Forgiveness Debt Relief Act of 2007 allows you to **not include** (exclude) certain cancelled debt on your home in your income if all of the following apply:

- The loan was used to buy, build, or improve your home
- The debt was forgiven in 2007, 2008, or 2009
- The amount forgiven must be less than \$2,000,000
- IRS Form 982 must be attached to your income tax return

If you have a loan to refinance your home, this loan also qualifies for this exclusion, but only up to the amount of your first mortgage before the refinancing.

If you don't qualify for The Mortgage Forgiveness Debt Relief Act of 2007 you may qualify under the "insolvency" exclusion. Normally, a taxpayer is not required to include forgiven debts in income if the taxpayer is insolvent. Being insolvent means that your liabilities (what you owe) is greater than your assets (what you own). Debt forgiveness may also be excluded if it was discharged in a Title 11 bankruptcy proceeding or if you owned and lived in your home for at least 2 years. There is also a possibility the mortgage company may file suit against the homeowner for the unpaid mortgage balance.

Contact the University of Utah's Low Income Taxpayer Clinic; we are FREE to qualifying taxpayers. We will see if you qualify for the Mortgage Forgiveness Debt Relief Act of 2007, or the insolvency, bankruptcy or ownership exclusions. We will prepare IRS Form 982 that needs to be attached to your tax return.

***** For More Information Contact the UULITC *****

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