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## Six things you need to know about mortgage workouts

*Special to Business Matters*

There is tax relief for struggling homeowners. If your mortgage debt is partly or entirely forgiven at any time during 2007 through 2012, you may be able to claim special tax relief on your federal income tax return for that year.

Here are six things the IRS wants you to know about mortgage debt forgiveness.

1. Normally, debt forgiveness results in taxable income. However, under the Mortgage Forgiveness Debt Relief Act of 2007, you may be able to exclude from tax up to \$2 million of debt forgiven on your principal residence. The limit is \$1 million for a married person filing a separate return.
2. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, may qualify for this relief.
3. The debt must have been used to buy, build or substantially improve your 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.
4. Debt forgiven on second homes, rental property, business property, credit cards or car loans does not qualify for the tax-relief provision. In some cases, other kinds of tax relief – based on insolvency, for example – may be available.
5. If your debt is reduced or eliminated, you should receive a Form 1099-C, Cancellation of Debt from your lender. By law, this form must show the amount of debt forgiven and the fair market value of any property given up through foreclosure.
6. Taxpayers who qualify 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.

For more information about the Mortgage Forgiveness Debt Relief Act of 2007, visit [www.irs.gov](http://www.irs.gov). A good resource is IRS Publication 4681, Canceled Debts, Foreclosures, Repossessions and Abandonments. This publication and Form 982 can be downloaded from IRS.gov or ordered by calling 1-800-TAX-FORM (800-829-3676).

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