

THE TAX CONSEQUENCES of DEBT FORGIVENESS PROGRAMS

There have been many questions about the tax consequences of mortgage-principal reduction programs. The IRS recently issued an advisory regarding the issue (March 4, 2010).

Under the federal tax code, forgiveness of debt is generally treated as taxable income. However, some debt forgiveness associated with the cancellation of mortgage debt may be exempted from treatment as taxable income.

There are limits to the tax exclusion, for example if you refinanced your mortgage and used some of the proceeds to pay off credit cards or buy a car, the proceeds not used for improvements do not qualify. For more information consult with your tax attorney or C.P.A.