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Newsletter

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Mortgage debt relief: Answers to frequently asked questions

To compound the financial woes resulting from a foreclosure or other mortgage restructuring for your home, the IRS generally imposes tax when debt is cancelled. In other words, you're taxed on the amount forgiven by the lender as if you actually received it as income. However, Congress provided some relief to homeowners under the *Mortgage Forgiveness Debt Relief Act of 2007*.

Here are the answers to several common questions in this area.

What relief does the new law provide? Generally, it excludes tax on cancellation-of-debt income realized from a foreclosure, short sale, or other mortgage restructuring. This tax break only applies to debt used to buy, build, or improve your principal residence. It isn't available for vacation homes or investment property.

Is there a limit? Yes. The exclusion can cover the tax due on up to \$2 million of forgiven debt (\$1 million if you're married and file separate tax returns). Any excess is taxable under the general rules.

How does the exclusion affect your basis in the home? You must reduce your basis (the amount used to determine taxable gain or loss from a home sale) by the amount of cancelled debt excluded from taxable income. For example, if a loan restructuring results in cancellation of \$50,000 of debt on a home with a basis of \$450,000, your basis is reduced to \$400,000. This could increase your taxable gain when you sell the home, although the first \$250,000 of gain (\$500,000 for joint filers) may still be sheltered by the home sale exclusion.

How do I know how much debt is excluded? Your lender will send you Form 1099-C (Cancellation of Debt) showing the amount of debt forgiven and the fair market value of property given up through foreclosure. It also sends the IRS a copy of the form. The IRS encourages homeowners to check this information carefully.

What is a short sale? Instead of foreclosing on a home, a lender may allow you to sell it for less than the mortgage amount and take the proceeds in full satisfaction of the debt. For instance, let's say you still have a mortgage of \$250,000 on your home, but the home's value has dropped to \$225,000. Assuming the bank agrees to a short sale and you incur \$15,000 in selling expenses, you turn over the remaining \$210,000 to the bank. The \$40,000 difference, which will be reported on Form 1099-C, qualifies for the new tax exclusion on cancellation-of-debt income.

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Is the new tax relief permanent? No. Initially, the tax exclusion only applied to debt forgiven in 2007, 2008, or 2009. But the economic stimulus law passed last year – the *Emergency Economic Stabilization Act of 2008* – extended this tax break for three years through 2012.

This is just a brief overview of the new mortgage debt relief available to homeowners. Call us if you have questions pertaining to your situation.

Don't let a scam spoil your vacation

Cruises top the list of dream vacation getaways for many families. Unfortunately, fraudsters and thieves view cruises in a different light. They'll scam you with fake bookings before you even set foot on a ship, after you're aboard, or during some exotic port-of-call excursion.

The hook. It may start with an e-mail or phone call offering a "free" or deeply discounted cruise. Bogus travel agencies have made tens of thousands of dollars from gullible would-be travelers without ever contacting a cruise line. Unfortunately, some people respond to these solicitations, book the cruise, pay a down payment, then discover they owe port fees, fuel charges, registration fees, service fees, or anything else the fraudster can think up. In some cases, con artists use the free cruise ploy to entice you into divulging sensitive personal information as a way to steal your identity.

Your defense. How can you defend against these schemes? First, remember that offers received via unsolicited e-mails and phone calls are more likely to be fraudulent. Second, never – never – give personal information, such as bank account or credit card information, to a business or person you don't know to be genuine. Third, get details in writing before you buy. Finally, don't succumb to high-pressure sales pitches. Take your time. If the person on the other end of the line refuses to provide detailed answers to your legitimate questions, hang up.

On board. Even after booking a cruise with a legitimate company and boarding the ship, you can become a victim. Modern cruise ships are like small cities with many of the same pleasures and hazards. So be sure to lock valuables in your cabin's safe. Make copies of credit card notification numbers, passports, driver's licenses, and other valuable documents. Leave one set of copies at home, keep another set with you (packed separately from the originals), and place another set in the cabin safe.

When going ashore – which, experts say, is where most petty theft occurs – remain on the alert. Don't display expensive jewelry; it's an invitation to pickpockets. Carry handbags in front of you and use an under-clothing money belt. Stay in organized groups, stick to public areas, and use shore transportation and tours approved by the cruise line.

These days, taking a cruise can be a fun and reasonably priced vacation. A little common sense can keep a swindler from turning it into a nightmare.

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A new vehicle could bring tax savings

If you're thinking of buying a new car, truck, motorcycle, or motor home this year, you might benefit from a tax break included in the *Recovery Act of 2009*. Here are the details.

- You can deduct state and local sales taxes paid on up to \$49,500 of the purchase price of a qualifying vehicle.
- Qualifying vehicles generally include new (not used) cars, light trucks, motorcycles, and motor homes purchased after February 16, 2009, and before January 1, 2010.
- The deduction can be claimed on your 2009 tax return regardless of whether or not you itemize other deductions.
- The deduction phases out for single taxpayers with income between \$125,000 and \$135,000. For joint filers, the phase out range is \$250,000 to \$260,000.

For more information or planning assistance, give us a call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.