

IRS News Release

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Special Web Section Unveiled for Homeowners Who Lose Homes; Foreclosure Tax Relief Available to Many

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WASHINGTON — The Internal Revenue Service unveiled a special new section today on IRS.gov for people who have lost their homes due to foreclosure. The IRS also reassured homeowners that, although mortgage workouts and foreclosures can have tax consequences, special relief provisions can often reduce or eliminate the tax bite for financially strapped borrowers who lose their homes.

The new section of IRS.gov includes a variety of information, including a worksheet designed to help borrowers determine whether any of the foreclosure-related relief provisions apply to them. For those taxpayers who find they owe additional tax, it also includes a form they can use to request a payment agreement with the IRS. In some cases, eligible taxpayers may qualify to settle their tax debt for less than the full amount due using an offer-in-compromise.

The IRS urges struggling homeowners to consider their options carefully before giving up their homes through foreclosure.

Under the tax law, if the debt wiped out through foreclosure exceeds the value of the property, the difference is normally taxable income. But a special rule allows insolvent borrowers to offset that income to the extent their liabilities exceed their assets.

The IRS cautions that under the law, relief may be limited or unavailable in some situations where, for example, part or all of a home was ever used for business or rented out.

Borrowers whose debt is reduced or eliminated receive a year-end statement (Form 1099-C) from their lender. By law, this form must show the amount of debt forgiven and the fair market value of property given up through foreclosure. Though the winning bid at a foreclosure auction is normally a property's fair market value, it may not necessarily reflect its true value in some cases.

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The IRS urges borrowers to check the Form 1099-C carefully. They should notify the lender immediately if any of the information shown on their form is incorrect. Borrowers should pay particular attention to the amount of debt forgiven (Box 2) and the value listed for their home (Box 7).

The IRS also reminds lenders of their obligation to provide accurate information on the Form 1099-C. By law, the lender must send a copy of this form to the IRS. IRS follow-up contacts with taxpayers involved in foreclosure are based largely on the information reported on this form, and whether it conflicts with information provided by the taxpayer on their federal income tax return.

The IRS normally initiates these follow-up contacts by sending the borrower a notice. The tax agency urges borrowers with questions to call the phone number shown on the notice. The IRS also urges borrowers who wind up owing additional tax and are unable to pay it in full to use the installment agreement form, normally included with the notice, to request a payment agreement with the agency.

More information, including answers to frequently-asked questions and links to other resources, is available on the front page of IRS.gov.