

Volunteer Tax Alert 2011- 08 March 4, 2011

Cash for Keys Program

Issue: Financial institutions initiating a foreclosure process on a home indicates that it is willing to pay the homeowner a set amount of cash in exchange for the keys to the home. The cash may be based on a percentage of the appraised value of the home or it may simply be a set amount. The financial institutions are making these payments through the new “Cash for Keys Program”. The financial institution reports these payments to the Internal Revenue Service on Form 1099-MISC.

Concern: Many taxpayers are receiving these “Cash for Keys Program” Forms 1099-MISC with the payment amount in box 7. Income reported in box 7 is subject to self employment tax. This is incorrect as this income is not subject to self employment tax; the payment amount should be in box 3.

Procedure: The money received is taxable and should be reported on Form 1040, line 21 as “other income”. Inform the taxpayer to contact the financial institution to have a corrected Form 1099-MISC issued. Inform the taxpayer it is okay to still file with the first Form 1099-MISC and to keep the corrected one for their files.

For more information, refer to:

- www.CashforKeysProgram.org
- The VITA hotline at 1-800-829-8482

If you have any questions, please discuss them with your site coordinator, contact your local IRS SPEC relationship manager, or e-mail partner@irs.gov.

Thank you for volunteering to serve your community
and for your dedication to providing top QUALITY
service!