



OFFICE OF
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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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The Honorable John Warner
United States Senate
Washington, DC 20510

ATTN: J. Meadows

Dear Senator Warner:

This letter responds to your inquiry dated July 14, 2005, on behalf of your constituent, . She requests information on whether funds received from a "home equity conversion mortgage" are taxable income.

A "home equity conversion mortgage," commonly known as a reverse loan, is a special type of loan that allows homeowners to use the equity in their homes to secure a loan which is paid out either as a lump sum or in a stream of payments.

A well-established principle of law is that a loan is not taxable income because the benefit to the borrower is offset by an obligation to repay (*Commissioner v. Tufts*, 461 U.S. 300, 307 (1983)). Therefore, funds received from a loan are not considered taxable income under section 61 of the Internal Revenue Code.

I hope this information is helpful. Please call me or , Identification Number , at , if you have any questions.

Sincerely,

William A. Jackson
Branch Chief
Branch 5
Office of Associate Chief Counsel
(Income Tax & Accounting)