



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

OFFICE OF  
CHIEF COUNSEL

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The Honorable Jack Reed  
United States Senate  
Washington, DC 20510

Attention:

Dear Senator Reed:

This letter responds to your inquiry dated December 8, 2011. You asked how homeowners should treat for federal income tax purposes principal reductions they receive from the Principal Reduction Alternative<sup>SM</sup> (PRA) provided under the United States Government's Home Affordable Mortgage Program<sup>SM</sup> (HAMP<sup>SM</sup>).

The Internal Revenue Service (IRS) is in the process of posting to the IRS website, [www.irs.gov](http://www.irs.gov), FAQs that address the tax treatment of PRA principal reductions. For your convenience, I have enclosed a copy of the FAQs.

I hope this information is helpful. If we can assist you further, please contact me at  
or at .

Sincerely,

Andrew J. Keyso  
Deputy Associate Chief Counsel  
(Income Tax & Accounting)

Enclosure