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**Contact:** Diane Thompson, dianethompson@nclc.org

## **STATEMENT REGARDING IRS GUIDANCE ON TAX TREATMENT OF PRINCIPAL FOREGIVENESS FOR MORTGAGE MODIFICATIONS**

(WASHINGTON, DC) Attorneys at the National Consumer Law Center responded today to guidance issued by the IRS on the tax treatment of principal forgiveness. “We commend the IRS for its new guidance on the tax treatment of principal forgiveness under the government’s Home Affordable Modification Program,” said Diane E. Thompson, an attorney with the National Consumer Law Center. “The new guidance is sensible and appropriate.”

Under the guidance issued on January 24, 2013, principal reduction is excluded from homeowners’ income to the extent the holders of the loan receive government-paid incentives. Homeowners may elect whether to treat any remaining principal reduction as income in the year of the permanent modification or as the principal is reduced on the loan (HAMP modifications generally reduce the principal over three years, following the permanent modification). Additionally, the rule permits homeowners to amend returns filed in previous years. As a result of this guidance, homeowners’ compliance with their tax obligations should be improved and homeowners’ access to existing exclusions from taxable income should be simplified.

“The Treasury Department and the IRS clearly put a great deal of thought into developing this guidance,” said Thompson. “We are particularly appreciative of the work of Senator Jack Reed in bringing this issue to the forefront.”

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Since 1969, the nonprofit National Consumer Law Center<sup>®</sup> (NCLC<sup>®</sup>) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC’s expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitive practices, help financially stressed families build and retain wealth, and advance economic fairness.