CONSUMER ADVOCATES URGE SENATE TO EXTEND MORTGAGE FORGIVENESS TAX RELIEF ACT

Passage Would Ensure that Homeowner Mortgage Forgiveness Not Taxed As Income

(WASHINGTON, D.C.) Today, the U.S. Senate is expected to take up legislation that would protect distressed homeowners across the country from getting hit with a higher tax bill next year. An extension of the Mortgage Forgiveness Tax Relief Act will be introduced by Senator Debbie Stabenow. If passed, it would stop the IRS from taxing forgiven mortgage debt as income in the case of a short sale, refinancing, or foreclosure.

“We are pleased to see the Senate take this important step toward protecting homeowners from adverse, unfair, and counterintuitive tax consequences,” said National Consumer Law Center attorney Diane Thompson. “Homeowners facing financial difficulties so great that they are unable to pay their mortgages should not be taxed on a modification of that mortgage. All of us are better off when homeowners are able to keep their homes and continue paying on their mortgages. We appreciate greatly Speaker Reid and Senator Stabenow’s leadership in this area.”

If the current law is not extended, principal reduction modifications entered into after December 31, 2013, including those authorized by the recent settlement with JP Morgan Chase, will result in additional tax consequences for homeowners. Without an extension, far fewer modifications will be done and the modifications done will be less sustainable, with wide-reaching consequences for homeowners, the communities they live in, and the national economy. The settlements with some of the large financial institutions that are finally providing modifications with principal reductions for qualified homeowners should not end up penalizing the homeowners who have waited so long for assistance.

The tax relief law was first signed by President Bush in 2007 and was extended one year as part of the “fiscal cliff” legislation signed at the beginning of 2013. Before this provision was signed into law, if a family owed $150,000 on their home but could only sell it for $100,000, and the bank forgave the remaining $50,000 of the mortgage, the IRS would treat this $50,000 as taxable income. That would mean a typical middle-class family would have to pay an additional $12,500 in income taxes on top of their regular taxes.

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Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. [www.nclc.org](http://www.nclc.org)