Protect Homeownership Tax Benefits

CONGRESSIONAL ACTION NEEDED

Congress must do no harm. The housing market, while improving, is not yet stabilized. More than 20% of all homeowners owe more on their mortgages than the home's current fair market value. The most urgent need is an extension of the tax relief provided in 2007 assuring that individuals in the process of foreclosure, short sales or loan modifications will pay no income tax on forgiven mortgage debt. Over the longer term, during its tax reform debate Congress must not impair the market by making changes to the mortgage interest deduction or the property tax deduction. These longstanding provisions are woven into the fabric of the tax laws.

CONGRESSIONAL ACTIONS TO DATE

Representative Charlie Rangel (D-NY) introduced H.R. 4202, "The Mortgage Cancellation Relief Act of 2012," which would extend the mortgage cancellation relief for two more years, through December 31, 2014. Representative Tom Reed (R-NY) has also introduced H.R. 4336, a similar bill, which would extend it for one year. No further action has been scheduled. The House Ways and Means Committee has held hearings on a range of tax reform issues, but has not had a specific hearing on real estate or housing.

Senator Debbie Stabenow (D-MI) introduced S. 2250, "The Mortgage Relief Act," which also extends the mortgage cancellation relief for two years. No further action has been scheduled. Like the Ways and Means Committee, the Senate Finance Committee held numerous hearings on tax reform, including an October 2011 hearing dedicated solely to housing. NAR provided extensive comments for that hearing.

WHAT TO TELL YOUR REPRESENTATIVES AND SENATORS

- House members should cosponsor H.R. 4336 or H.R. 4323 if they have not yet done so.
- Senators should cosponsor S. 2250 if they have not yet done so.

More time is needed to restore equilibrium in the market. More than 20% of all homeowners currently owe more on their mortgages than the current fair market value of their home.

The extension should be enacted as quickly as possible and well before year-end. Foreclosure and short sale transactions take several months to complete. Both homeowners and lenders need certainty about the tax consequences of these difficult transactions.

The relief provision assures that individuals in foreclosure, short sales and loan modification situations will not have to pay income tax on forgiven debt. Individuals who have experienced what for most will be the greatest economic loss of a lifetime have no cash with which to pay the tax.

Most of the housing dislocation caused by predatory or imprudent loans has worked its way through the system. Today, people seek loan modifications or experience short sales and foreclosures most frequently because of job loss. Struggling families should not be further burdened with additional income taxes.

ISSUE BACKGROUND

Prior to 2007, the tax laws required that any time a lender forgave any part of a mortgage debt, the person responsible for that debt was required to pay income tax at ordinary rates on the forgiven amount. Over the past 60 years, there had never been a time when housing values all over the U.S. collapsed. A collapse occurred in 2007.

Legislation to relieve homeowners of any requirement to pay income tax on forgiven debt was enacted in 2007. Among the limitations to the relief was a provision to assure that tax relief was not extended to cash out refinancing or to very large amounts of debt (more than $2 million). That provision was originally scheduled to expire at the end of 2009, but was extended during the financial crisis so that it would expire at the end of 2012.

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