

NAR Issue Brief

Mortgage Cancellation Tax Relief

ISSUE:

If Congress does not act by the end of the year, both home sellers and some home owners could face an additional tax burden in 2013. Already real estate transactions, including loan modifications, short sales and foreclosures, are in the pipeline and may not be able to close before year-end. If owners are unable to close these transactions, and if Congress does not act, these owners and sellers will not receive the benefit of tax relief provisions they have relied on.

Today, if a lender forgives some portion of a homeowner's mortgage, either as part of a short sale or foreclosure, or in a loan restructuring that reduces principal, the owner/seller will pay no income tax on the forgiven amount. That relief expires on December 31, 2012. Those who are unable to close their transactions in this calendar year face a "phantom income tax" in 2013. Already the pending expiration of this tax relief is discouraging sellers who may require some debt forgiveness. This uncertainty adds a new financial burden to sellers who are already in financial trouble.

BACKGROUND: WHY IS THIS IMPORTANT?

- Homeowners shouldn't be forced to pay tax on money they've already lost with cash they never received - and never will receive.
- More than 20% of current homeowners with a mortgage owe more on their homes than the current fair market value.
- Transactions not completed by year-end could become taxable in 2013, despite a borrower's reliance on this tax relief.
- The housing market, while recovering, is still fragile enough that this tax relief will be needed in 2013 and possibly beyond.

PROTECT MORTGAGE DEBT FORGIVENESS TAX RELIEF

Congressional Action Needed:

- Cosponsor Mortgage Cancellation Tax Relief Legislation
- Secure its passage well before year-end.

What to Tell your Senator:

- Cosponsor **S. 2250** introduced by **Senator Debbie Stabenow (MI)**
- Urge Senate Leadership to act quickly on a tax package that includes this bill.

What to Tell your House Republican Representative:

- Cosponsor **H.R. 4336** introduced by **Representative Tom Reed (NY-29)**
- Urge Chairman Camp to act quickly on this bill.
- Urge House Leadership to schedule a floor vote on this provision before year-end.

What to Tell your House Democratic Representative:

- Cosponsor **H.R. 4202** introduced by **Representative Charles B. Rangel (NY-15)**
- Urge Ranking Member Levin to work with Chairman Camp to secure this tax relief well before year-end.

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WHAT HAS NAR DONE ALREADY?

- Secured introduction of bills cited above.
- Worked with Federal Political Coordinators and other Realtors to secure cosponsors for these bills.
- A Senate Finance Committee package that extends dozens of expired and expiring provisions includes a one-year extension (through 2013) of the mortgage cancellation relief. No bill number is yet available.
- Communicated with House and Senate leadership to convey the importance of extending this relief well before year-end.