

Foreclosure 'Help' From The IRS...?

Yes, even the IRS appears to have a heart! Did you know that you can actually be taxed on the foreclosed sale of your house? Evading tax is another good reason to try and stave off the foreclosure of your home.

If you are trying to avoid foreclosure, many realtors know solutions to house buying problems and finance, and the realtor who sold you the home may be able to offer advice. Meanwhile, the IRS is also trying to offer help and hope.

Under normal conditions, to quote the IRS, "Under the tax law, if the debt wiped out through the foreclosure exceeds the value of the property, the difference is normally taxable income."

However, the IRS have turned out to be not quite the ogres we like to think they are, and are recently trying to help folks facing genuine hardship foreclosures. Information about this is available on the Internet, under their IRS web page, and it is surely a 'must read' for anyone that might lose their home.

A new section was added to the Internal Revenue Service site on September 17 this year. It is written in plain language, and it gives some very good information on the possible tax consequences of many sorts of mortgages and it also goes into foreclosures.

The foreclosure part is worth checking into, as it explains to taxpayers about how "....special relief provisions can often reduce or eliminate the tax bite for financially strapped borrowers who lose their homes." If you are facing or have faced foreclosure this is for you!

Apart from a slew of new information, there is also a worksheet to download from the site to help home owners facing foreclosure decide whether any of the foreclosure-related relief tax-breaks will apply to them.

If you are going to be one of the unlucky ones, who will owe money, then they also provide a form on which you can request a payment 'plan' with the IRS. This seems a very humanitarian gesture and does reflect the responsibility that some agencies are taking toward trying to offer help in this situation.

In some cases, you may qualify for a special concession, where you can settle your tax debt for less than the full amount owing using an "offer-in-compromise."

It is not always the case that cancellation of debt results in taxable income. For instance, the situation may be different when the debt is in the form of a non-recourse loan.

According to the IRS, "A non-recourse loan is a loan for which the lender's only remedy in case of default is to repossess the property being financed or used as collateral. That is, the lender cannot pursue you personally in case of default. Forgiveness of a non-recourse loan resulting from foreclosure does not result in cancellation of debt income."

So there is some good news - or rather in these sad situations it is more fitting to say that it is not all bad news.

The worksheets and examples in the new section are a particularly helpful aspect of the September 17th addition to the web site. There are also other links to other IRS publications that also offer worksheets and examples.

As a final note on the IRS - a warning about the form 1099-C (the form which is used for reporting debt cancellation to the IRS) Any taxpayers who receive one need to know that they should verify its accuracy as it is something that should be seen by anyone who is facing or contemplating foreclosure.

If you get the IRS on your side, and can arrange a payment plan, and scrape through for a few more months, perhaps the legislation of Chris Dodd's reform bill in the Senate will change a few things; but that's another story...

About the Author

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