

[The Mortgage Forgiveness Debt Relief Act](#) (the “Act”) was signed into law in December 2007. The Act provides tax relief for individuals whose mortgages have been modified or homes foreclosed on during 2007, 2008 or 2009.

But this tax relief is not automatic; a form must be completed and filed along with your federal income tax return for the appropriate year. Following is information that can help you through this process.

DO YOU QUALIFY?

The Act applies only to forgiven or cancelled debt used to buy, build or substantially improve your principal residence or to refinanced debt incurred for those purposes. If you refinanced your home, you may qualify for tax relief under the Act if the principal balance of your old mortgage, immediately before the refinancing, was used to buy build or substantially improve your principal residence.

If only part of your mortgage was used to buy, build or substantially improve your principal residence, then only the portion of the loan which was used to buy, buy, or substantially improve your principal residence qualifies. The Act does not cover debt forgiven on a second home, vacation home, credit card or car loan.

You may not qualify for debt relief if the principal balance of your loan was greater or equal to \$2 million (\$1 million if married filing separately for the tax year) at the time the loan was forgiven. For more information, see [the instructions](#) for Form 982

Note: If the reason for the cancellation of debt is not related to your financial condition, you may not qualify for tax relief under the Act. If your loan was cancelled in return for services performed for the lender or there were other factors not directly related to the decline in the value of the residence, you may not qualify for the tax relief.

FORM 982

If you qualify for the tax relief, attach [Form 982](#) to your income tax return when you file. If you have already filed your income tax return, attach Form 982 to an amended income tax return.

Note: You do not need to fill out the entire Form 982. You only need to complete lines 1e and 2 if you qualify as a result of foreclosure on your principal residence. If you kept your home, but the modification of the terms of the mortgage resulted in the forgiveness of qualified debt, you need to complete lines 1e, 2 and 10b. Do not forget to attach the Form to your income tax return for the appropriate year.

CHECK YOUR MAIL!

Have you recently received a letter from the IRS stating that the income entered on your income tax return does not match their records? If you recently had your home foreclosed

on or your mortgage debt modified, and you did not include Form 982 with your income tax return, you may receive this letter.

Every year, when the Internal Revenue Service receives your income tax return, the Service attempts to make the numbers you send add up to those it has on file. The IRS use an automated system to match up your income tax return information with the documents that the IRS receives from employers, banks, and other financial institutions. If your return information does not match with the documents it receives, the IRS will send you a letter to that effect.

Unless you file a Form 982, and attach it to your income tax return for that year, the IRS will count your cancelled debt as income.

If you qualify for the tax relief and the confusion is related to mortgage debt, you should contact the IRS. It is possible that the issue may be resolved by simply filing a Form 982 along with an amended return.

ADDITIONAL INFORMATION:

For more detailed information, [click here](#).

For IRS Q&A, [click here](#).

You may qualify for assistance from your local low income taxpayer clinic. For a map of locations, [click here](#).