

What to do?

- If you're part of a foreclosure, or know someone who is, make sure to keep in mind the tax implications of foreclosure.
- A **Form 982**—Reduction of Tax Attributes Due to Discharge of Indebtedness, must be filed with your tax return if there is a cancellation of debt.
- If you use a **Form 982** only to report the forgiveness amount of a foreclosure you only need to fill out lines 1(e) and 2

For More Help

- For further information, see **Publication 523**—"Selling your Home," and **Publication 544**—"Sales and Other Dispositions of Assets"

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FORECLOSURE & Its Tax Implications



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Foreclosure Basics

What is a foreclosure?

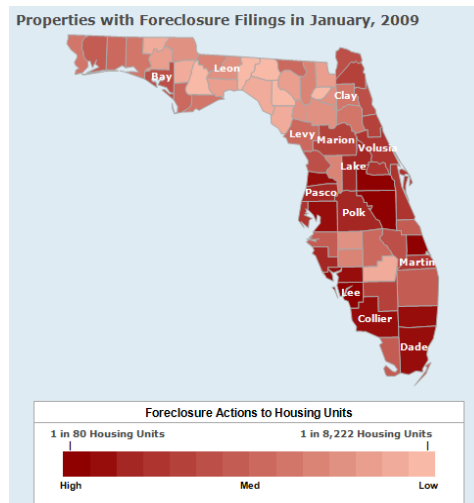
1. A foreclosure occurs when the borrower fails to pay the lender. Normally after a series of non-payments, and unsuccessful attempts for the lender to get their payments, the lender then initiates a foreclosure action.
2. People are unable to pay for a number of reasons, the three most common are:
 - Loss of job/ Decrease of pay
 - Excessive debt mounting
 - Adjusted rate mortgages (ARM's) increasing the interest rate

The Effects of Foreclosure

- Foreclosures can:
 1. Hurt a persons credit score
 2. Leave a person homeless
 3. Create a large tax burden for the person

Florida Foreclosure Facts

- Florida is among the highest states for foreclosures
- In January of 2009, one out of every **214** housing units in Florida was foreclosed on
- In January of 2009, one out of every **284** housing units in Duval County was foreclosed on



Tax Implications of Foreclosures

What most people don't realize during a foreclosure, is that the IRS characterizes a foreclosure as a cancellation of debt.

- Example: Person A, buys a house for \$200,000, with a mortgage of \$150,000 and \$50,000 cash. And lets say further that Person A was able to pay \$50,000 on the mortgage before the house was foreclosed on, leaving a mortgage of \$100,000. Thus when the house is finally foreclosed, the \$100,000 remainder on the mortgage is characterized by the IRS as a canceled debt. In other words, the IRS views the \$100,000 as \$100,000 income given to you, even though that money never touched your hands.

That canceled debt will be reported by the lender to the IRS on a **Form 1099-C**. The **1099-C** is controversial because it lists a Fair Market Value, which will reduce the debt canceled. The problem lies in the fact that the Fair Market Value is sometimes reported well below what the true value is.