NAR: Debt Forgiveness Should be Permanent Part of Tax Code

By: Jann Swanson | Thu, Mar 15 2018, 10:29 AM

Prior to the housing crisis, homeowners who defaulted on their mortgages faced tax consequences if their **lender had to write off or write down any part of the outstanding balance**. That often happened after the collateral was sold after a foreclosure, deed-in-lieu, or short sale, and write-downs were sometimes included as part of a mortgage modification as well. The deficit amounts were reported to the IRS as forgiven debt and were subject to being taxed as income.

In 2007, as the numbers of distressed mortgages was mounting, Congress put a temporary policy in place to **exclude forgiven home mortgage debt from any tax obligation**. That exclusion has been extended several times. It expired in 2017, but early this year it was extended retroactively to cover the previous year

The National Association of Realtors® (NAR) has long advocated for making the exclusion permanent. They maintain that taxing forgiven debt as income adds an additional burden on an individual or family just as they have actually experienced true economic loss, and when they are unlikely able to pay additional taxes. On Tuesday a representative of the Association testified to that effect before the U.S. House Ways and Means Subcommittee on Tax Policy at a hearing evaluating recently expired tax provisions.

Barry Grooms, 2018 vice president of Florida Realtors®, testified on behalf of NAR. He told committee members, "The exclusion for mortgage debt cancellation **delivers a huge dose of fairness**. When the investment in a home goes well, and the owner sells at a gain, the tax code generously waives capital gains up to $500,000. But what happens when things go sour, equity is lost and the family is forced to sell short? Up through last year, the exclusion stepped in and relieved the often-impossible tax burden. If allowed to expire, we are left with a tax policy that rewards good fortune **but piles on when the tables are turned**." He added, "This is neither fair nor smart."

The home equity situation is much better today than when the exclusion was first put in place and there is no longer the avalanche of short sales and foreclosures. However, NAR says, in a press release regarding Groom's testimony, that there are still about 2.5 million homes in negative equity. This means there is still a significant number of households struggling to keep up with their mortgage payments. "The exclusion is vital for **lessening the financial impacts of a foreclosure**, short sale or loan restructure and saving distressed families from a dire hardship,"

In his testimony, Grooms urged Congress to make mortgage cancellation relief a permanent provision in the tax code. Since the exclusion has already expired, he said, the future of troubled borrowers in serious doubt. "Cases of negative home equity will ebb and flow as well, even with a stronger economy. This is why we need a permanent exclusion to minimize the damage to families, neighborhoods and communities."

View this Article: https://www.mortgagenewsdaily.com/news/03152018-nar-advocacy