

Today's Overview

THE MORTGAGE FORGIVENESS DEBT RELIEF ACT – *What it means for the homeowner*

This provision applies to debt forgiven in calendar years 2007 through 2012. Currently under the ACT, you must **sell and close** on your home before Dec 31, 2012 to qualify for the benefits provided under the ACT.

If you or someone you know has considered selling their home, now is the time to do so. Although there has been TALK of extending the ACT, there is NO guarantee that they will do so and currently have not published when they might intend to announce any extensions. There is TALK about waiting until the last month to announce an extension.

Will you trust your taxable liability to TALK? IF Congress does not extend the Mortgage Forgiveness Debt Relief Act, here is what it means to homeowners who sell their homes after the end of 2012 who are currently covered under the ACT:

- Homeowner will receive a 1099 for the amount of forgiven debt from their lender
- 1099 income is taxed at the rate of ordinary income even though the income is not received
- Any debt forgiven by the lender would be taxable income
- Additional ordinary income could impact the tax bracket which applies to the homeowner's total income and greatly increase the amount of taxes he or she will pay.

Ordinary Income Yearly	Taxable Rate according to IRS Publication for a married couple filing jointly.	Income tax due	New Total Income for the year including 1099 income from forgiven debt	New taxable Rate	Income Tax Due	Additional Tax Liability after the ACT expires that the IRS can collect
\$30,000	15%	\$4500	\$130000	25%	32500	28000.00
\$70,800	25%	\$17700	\$220800	38%	83904	66204.00

Example: For the purposes of this example, we have simplified the process and do not want to represent that this includes any tax exemptions or deductions the seller may be able to take for their individual tax situation. Professional tax advice should be acquired to determine the actual impact the increase would have on any one individual situation. Tax rate is taken from the IRS publication now available for the tax year 2012.

You may find specific answers to questions at <http://www.irs.gov/individuals/article/0,,id=179414,00.html>

*The overview is current as of Feb 2, 2012*



**Sara Pichelmann**

Realtor Resource

(480) 495-4175

spichelmann@aol.com

www.azrealtorhelp4u.com



Lawyers Title

