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Lawmakers Want Forgiven Debt to Be Tax-Free

If you or a family member has been affected by problems in the subprime mortgage market, you might be interested to learn that federal legislators are working on a proposal that would exclude from taxes debt that is forgiven following mortgage foreclosure or renegotiation.

Extent of the Problem Explained

An estimated two million U.S. families face possible foreclosure due to rising interest rates in the current housing market crisis, according to a statement by House Ways and Means Committee Chairman Charles B. Rangel (D-NY). In addition, Sen. George V. Voinovich (R-OH) reports that 2006 foreclosure rates were at a 13-year high nationwide.

To make matters worse, affected individuals may be taxed on the debt forgiven following mortgage foreclosure or renegotiation, because the debt is considered income for tax purposes under current law, says Rangel.

Combined with declining home prices, rising foreclosure rates are forcing an increasing number of people to sell their homes for less than they paid for them and, in some cases, less than the amount they owe on their homes, according to Voinovich.

Rangel and Voinovich have sponsored tax-relief legislation to address the problem.

House Proposal Approved

Rangel's proposal, H.R. 3648, the Mortgage Forgiveness Debt Relief Act of 2007, was approved in early October in a bipartisan 386-to-27 vote.

"It is just not right or fair that families struggling through a foreclosure would then face a tax bill in addition to losing their homes when they have seen no increase in their net worth," said Rangel. "This bill rights that wrong and provides tax relief to millions of American families."

According to Rangel, the bill also would help would-be

homeowners secure their investments and avoid high-interest, "piggy-back" loans for down-payments and tighten requirements to exclude gain from the sale of certain homes that have been used as a vacation home or rental property.

Senate Version Under Consideration

Voinovich is urging the Senate to pass a similar bill, the Mortgage Cancellation Relief Act of 2007 (S. 1394), which he introduced in the spring with Sen. Debbie Stabenow (D-MI). He is also working with the White House and members of the House of Representatives to resolve differences between the House and Senate versions.

Voinovich said, "Clearly it is unfair to tax people on income that doesn't exist. This is particularly true at a time when they have experienced a substantial economic loss on the most significant asset they own and have no way to pay the tax. This tax is unfair and must end immediately." ■