

Eliminating "Phantom Tax" On Foreclosures Is Good For Consumers

WASHINGTON, September 26, 2007 - The National Association of Realtors® praised the House Ways and Means Committee for taking positive action today on the Mortgage Cancellation Tax Relief Act, H.R. 3648. Since the early 1990s, NAR has actively pursued repealing the current law, which forces individuals to pay an income tax on mortgages that have been forgiven or foreclosed.

"NAR is encouraged by today's House Ways and Means Committee vote to adopt this measure and send it to the full House for consideration," said NAR President Pat V. Combs of Grand Rapids, Mich., and vice president of Coldwell Banker-AJS-Schmidt. "Changing the IRS code for these situations will relieve a tax burden for families who are already in financial distress and are most likely unable to pay additional taxes."

With many families affected by resetting interest rates on sub prime mortgages and the ongoing rise in foreclosures, NAR has been working to help more homeowners and their families keep their homes. "Clearly it is unfair to tax people on phantom income when they most likely have no cash with which to pay that tax," said Combs. "Realtors® don't just sell homes; we build communities, and NAR is committed to efforts that will help make the nightmare of losing a home less burdensome for families."

The current tax code requires a lender who forgives debt to provide a Form 1099 to the IRS stating the amount the borrower has been forgiven. This disclosure applies whether a short sale, foreclosure, deed in lieu of foreclosure or any similar arrangement relieves the borrower of the obligation to pay some portion of his or her debt. If the property is sold at foreclosure or is sold for less than the amount borrowed, that difference is considered income and is subject to the tax.

H.R. 3648 would ensure that any mortgage debt secured by a principal residence will not be taxed. "NAR stands strongly with Chairman Rangel, D-N.Y., and Ranking Member McCrery, R-La. Their relief proposal addresses a fundamental unfairness that affects the lives of those who find themselves in truly unfortunate circumstances. We must all work together to prevent the dream of homeownership from becoming a nightmare," said Combs.

The legislation includes a provision to safeguard against abuses. The provision, similar to one that already exists for commercial real estate owners, would treat commercial and residential property equally. In addition, NAR supports the proposed offset, which tightens the requirements for taking advantage of some tax benefits while retaining all of them.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.