

Time Running Out on Mortgage Relief Act

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Oct 15, 2012 (Marketwire via COMTEX) -- The 1.5 million homeowners¹ in foreclosure -- and those facing it -- need to understand the different tax implications if the process is finalized by Dec. 31 versus next year. [H&R Block](#) (NYSE: HRB) explains that because the soon-to-expire Mortgage Relief Act allows up to \$2 million of this forgiven debt to go untaxed, having foreclosure debt forgiven after Dec. 31 could substantially increase tax liability.

After a foreclosure, the bank may choose to forgive some or all of the outstanding loan balance. Typically, forgiven debt is taxable income, but those facing foreclosure on their principal residence could get tax relief from the Mortgage Relief Act if they meet the requirements. Since the bill was enacted in 2007, the number of foreclosures has increased 44 percent, rising from 2.2 million in 2007 to 3.9 million in 2011.²

"The tax implications that may result from having debt forgiven sometimes come as a surprise to taxpayers," said Kathy Pickering, executive director of The Tax Institute at H&R Block. "After foreclosure the house is gone, but the forgiven debt could have significant tax implications, resulting in taxpayers owing more in taxes when they file their next return."

For example, a married couple with combined income of \$75,000 who have \$100,000 of debt canceled as the result of a foreclosure could owe \$27,625 more in income taxes if the foreclosure is finalized after Dec. 31.

Foreclosure and debt cancellation are two separate processes. Additionally, the decisions if and when to cancel debt rest solely with the lender, and it could be months or even years after the foreclosure occurs before the debt is canceled.

"Gains resulting from foreclosure could be taxable, but the losses aren't tax-deductible. Homeowners need to know how foreclosure could create other sources of financial pressure and be better prepared for whatever comes their way," Pickering said.

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About H&R Block

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¹ [Statistic Brain](#)

² [RealtyTrac](#)

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