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On business: Taxes can linger after foreclosure

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During a foreclosure, it can be easy to forget that tax issues will remain after the sale.

Among the things you should know if you're faced with an imminent home foreclosure: Determining whether the Internal Revenue Service will require the borrower to recognize income from the foreclosure through cancellation of debt income or recognition of capital gains income.

If debt is forgiven, the mortgage lender is required to send the borrower and the IRS a 1099-C cancellation of debt form. The lender also may send a 1099-A, Acquisition or Abandonment of Secured Property form.

These two forms are vital to a borrower's understanding of whether the IRS will recognize income from the foreclosure.

Cancellation of debt income occurs when the lender agrees to let the borrower not pay part or all of the difference between the sale price of the home and the amount left on the mortgage. The canceled debt is then reported to the IRS as income, but is not necessarily taxable. Bankruptcy, insolvency, certain farm debts, and a nonrecourse loan are exceptions to the general rule that canceled debt is taxable income.

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