

## REAL ESTATE



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**Q We are being forced to do a short sale of our home.  
Do we have a tax problem?**

Maybe. Debt forgiveness (the amount by which the loan exceeds the property's value) is considered taxable income. Fortunately, the Mortgage Forgiveness Debt Relief Act of 2007 generally allows individuals to exclude this "income".

The exclusion is only available for principal residences with mortgages of \$2 million or less (\$1 million if married filing separately) and is effective for years 2007, 2008 and 2009.

The debt must have been used to buy, build or substantially improve a principal residence and must have been secured by that residence. Refinanced qualifying debt is also eligible for the exclusion, but only up to the amount of the old mortgage principal, just before the refinancing.

Debt forgiven on second homes, rental property, business property, credit cards or car loans does not qualify for the new tax-relief provision.