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Q

Are there any tax consequences if I renegotiate the terms, but not the amount of my mortgage?

A

There may be. Cancellation of Debt Income (CODI) occurs when a debt is discharged in whole or in part or there is a significant modification in the loan terms. The first scenario is simple; the lender forgives a portion of the loan resulting in the borrower having CODI. The second scenario isn't so transparent. This definition of a modification is extremely broad and is easily triggered.

According to the IRS, there are three exceptions:

1. If the modification of the terms comes about by the mere operation of the agreement (e.g. rate resetting)
2. Borrower's failure to perform
3. A party's failure to exercise an option

Based on this, virtually any change in original loan terms or any non-performance with respect to the original terms of the loan will be considered a modification. Whether the modification is *significant* will determine if it is taxable.