

Mortgage Forgiveness Debt Relief Act

On December 18th, the House passed the Senate amendments to H.R. 3648, the Mortgage Forgiveness Debt Relief Act. This bipartisan bill stops the tax on phantom income when a lender forgives some part of a families' mortgage in foreclosure for three years.

It is wrong that homeowners can find themselves facing a large tax bill at the same time that they are losing their homes. This occurs because current law taxes homeowners on mortgage debt that is forgiven by banks. House passage will send this critical measure responding to the subprime mortgage crisis to the President.

Under current law, the debt forgiven following mortgage foreclosure or renegotiation is considered income for tax purposes, resulting in tax liability for individuals and families. The bill provides tax relief by for three years excluding this mortgage debt forgiven (on or after January 1, 2007) under these circumstances from taxes. To prevent any abuse, the bill caps at \$2 million the maximum amount of forgiven debt that would be eligible for tax relief, and it limits tax relief to situations where the debt is forgiven because of a decrease in home value or because of the financial hardship on the borrower.

- Extends the deduction for mortgage insurance. The bill extends the tax deduction for mortgage insurance – which insures the homeowner against default on their mortgage -- for three years (through the end of 2010).
- Fully Paid for. The bill is fiscally responsible and fair, paid for by increasing penalties for corporations and partnerships that fail to file taxes.

[Learn more about House Democrats' work to address the subprime mortgage crisis>>](#)