

THE HOMEOWNER'S FRESH START SERIES

RESOURCE: Tax Impact Guide Short Sale

PREPARED BY:

"Island" Brian Crane, Realtor, SFR
Certified Short Sale Specialist



Inside This Guide:

- **Clarity:** Breaking down complex bank jargon into plain English.
- **Strategy:** Actionable steps you can take today to protect your future.
- **Timeline:** Knowing exactly what to expect from Day 1 to the finish line.

"My goal is simple: To provide you with the information your lender won't, so you can move from a place of stress to a place of certainty."

Confidentiality & Disclaimer:

The information contained in this document is for educational and informational purposes only. While I am a licensed Real Estate Professional and a Certified Short Sale Specialist, I am not an attorney or a CPA. Because every financial situation and lender is unique, I highly recommend a brief, confidential consultation to discuss how these rules apply to your specific case.

IRS Form 982 & Mortgage Debt Relief Guide

Disclaimer: For educational purposes only. Consult a tax professional.

What is a 1099-C?

When a lender forgives debt over \$600, they are required to report it to the IRS as "income." You will likely receive a Form 1099-C in the mail the year after your short sale.

- **The "Full Satisfaction" Clause:** We aim for your 1099-C to show Box 6 (Identifiable Event Code) as "G" (Decision by lender to discontinue collection). This is the cleanest code for your tax preparer.

Pro tip: Timing the Filing - Never file your taxes until you have your 1099-C in hand. If the bank is late sending it, ask for an extension. Filing without it can trigger an automatic audit when the bank eventually reports the "income" to the IRS.

The "Insolvency" Exclusion (IRS Form 982)

Most homeowners in a short sale do not end up paying taxes on the forgiven debt. Why? Because of the **Insolvency Rule**.

- If your total liabilities (mortgages, credit cards, car loans) exceed your total assets (car value, bank accounts, home value) at the time of the sale, you are considered "Insolvent."
- By filing **IRS Form 982** with your tax return, you can often "exclude" that forgiven debt from your taxable income.

The "Safety Net" Strategy for Your Accountant

- **Calculating Insolvency:** To use the Form 982 "Insolvency" rule, you must prove you were insolvent *immediately before* the debt was cancelled.
 - **Formula:** (Total Debt: Credit cards + Mortgages + Student Loans) MINUS (Total Assets: Cars + Jewelry + Home Value + Savings).
 - If that number is negative, you are insolvent.

The Mortgage Forgiveness Debt Relief Act

While laws change, this act historically allowed homeowners to exclude debt forgiven on their **principal residence**. Even if this act expires, the "Insolvency" rule mentioned above remains a permanent part of the tax code.

- **Principal Residence vs. Investment:** If the home was your primary residence, you have more protections than if it was a rental property. Rental properties often face "Recapture Tax," which is why this guide is vital for investors.

Contact for a Confidential Strategy Session:

Phone: 904.206.6881 | Email: brian@islandbrian.com | Website: www.islandbrian.com