

No Taxation of Forgiven Debts

New California law could save victims of foreclosure thousands of dollars in state taxes.

April 9, 2010 - [PRLog](#) -- The California Legislature has just passed a new law that will prevent the state from taxing forgiven home debt as income from the nearly 100,000 people who lost their homes there in 2009. Prior to this law, when a lending institution was willing to forgive a certain amount of a person's debt, the borrower would still have been required to pay state income taxes on the amount that was forgiven, which could have easily reached several thousand dollars. Gov. Arnold Schwarzenegger is said to be planning to sign the bill. The bill will apply to those who lose their homes between 2009 and 2012.

Timothy McFarlin, an attorney with Irvine based law firm McFarlin and Geurts feels that this is a huge victory for victims of foreclosure in California. Someone who has lost their home to foreclosure usually doesn't have the cash to pay taxes on money that they actually never see. When a lender forgives a debt, they agree to stop trying to collect the debt from the borrower, they don't cut the borrower a check for the forgiven amount. To the person who has lost their home, having to pay taxes on forgiven debts may mean the difference between recovery and digging the same hole they were in before. The person who is slapped with a hefty tax bill for money that they never saw must now figure out how to pay their new debt while still trying to figure out how to survive and recover from the loss of their home.

Those who will be able to take advantage of this tax relief are those who lost their homes due to foreclosure, short sale, or deeds in lieu of foreclosure between 2009 and 2012. Homeowners who used loan modification to lower the amount of money that they owed will also be able to enjoy the fruits of this law.

Those who would still have to pay taxes on their forgiven debts include those who did not refinance their homes before losing them and investors who did not actually live in the home that was lost. Any Californian who is not sure if they would qualify for tax relief under this new law should consult with a real estate or tax attorney for guidance.

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