

State has yet to extend its version of the relief bill

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s if it wasn't bad enough that they were losing their homes, those looking to short sell* in 2013 were also looking down the barrel of significant tax implications.

Let's say they managed to get their lender's approval to sell their home for \$300,000 when they actually owed \$400,000. A resulting \$100,000 debt would be forgiven. Problem: While the bank may be willing to let debt disappear into the cosmos, the IRS... is not.

Debt reduction is considered income and therefore taxable.

In 2007, the Feds realized that adding huge tax burdens to those who couldn't afford to keep their homes was tantamount to extreme and unusual punishment. Consequently, they enacted debt reduction legislation removing tax consequences for most short sale recipients.

Billed "The Mortgage Forgiveness Debt Relief Act," it gave distressed sellers a break from taxable income on loan balances of up to \$2 million, or \$1 million for married tax filers submitting separate returns. California followed suit, removing state tax obligations.

It all expired December 31, 2012.

Fortunately, as a result of the fiscal cliff agreement, federal relief is back on track for 2013. If debt forgiveness had been allowed to lapse, it could have had serious implications for Central Alameda County sellers. Many who were considering short sales would have been forced to go the route of bankruptcy or foreclosure to avoid being stuck with a hefty, untenable tax bill.

In reality, a number of local sellers facing potential short sales have been sitting on the shelf,

waiting for news of an extension. Currently, only 16.67 percent of active Central Alameda County listings are short sales — down dramatically from almost 50 percent a couple years ago. Foreclosure listings are down even more, to 10.87 percent. Central County Realtors anticipate that re-approval of the debt relief act will lower foreclosures even more and move a large number of short sellers off the fence in 2013.

One minor problem: The state has not yet extended its version of the relief bill. It's hoped this will happen soon and be made retroactive to January, 2013.

Viable short sales are desperately needed since so many are still under water. With almost no current market inventory, there'll never be a better time for those selling short to get their (1) homes into escrow, (2) get out from under their debts, (3) get on with the rest of their lives and (4) help spark local market recovery.

*A short sale is selling a home for less than is actually owed on the mortgage(s).

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