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Tax implications in a Short Sale or Deed-in-Lieu

Please note that you may be able to exclude some or all of your cancelled mortgage debt as a result of a short sale if you were insolvent immediately before the cancellation of debt. Please see pages 5 and 6 of the IRS pub 4681 and the IRS insolvency worksheet which will assist you and your tax advisor in determining if you qualify.

Please refer to the attached IRS pub 4681 and consult your tax advisor for all tax information affecting debt forgiveness and your short sale.

In addition, borrowers who receive a 1099-C in association with a short sale, foreclosure, or deed-in-lieu should work with their accountant in order to confirm that the 1099-C was actually completed correctly by the borrower's lender.

Always retain your final HUD-1 (estimated settlement statement) as well as any documentation related to the original amount of the mortgage. If the 1099-C has not been completed correctly, the borrower and a CPA can demonstrate the correct calculations to the IRS.

Check with your tax professional about a possible extension of the Mortgage Forgiveness Debt Relief Act for 2015.

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