



## IRS and CA Franchise Tax Board clarify mortgage debt

California Association of Realtors

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### **IRS and California Franchise Tax Board declare California distressed home sellers not liable for federal or state income tax on short sales**

LOS ANGELES (Dec. 4) – The CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) announced today it received a letter from the California Franchise Tax Board (FTB), obtained by Board of Equalization (BOE) member George Runner, clarifying that California families who have lost their home in a short sale are not subject to state income tax liability on debt forgiveness “phantom income” they never received in a short sale.

Last month, in a letter to California Sen. Barbara Boxer, the Internal Revenue Service (IRS) recognized that the debt written off in a short sale does not constitute recourse debt under California law, and thus does not create so-called “cancellation of debt” income to the underwater **home seller** for federal income tax purposes. Following the IRS’s clarification, C.A.R. sought a similar ruling by the California FTB. Now with the FTB’s clarification, underwater home sellers also are assured that they are not subject to state income tax liability, rescuing tens of thousands of distressed home sellers from California tax liability for debt written off by lenders in short sales.

“We are pleased with the recent clarifications issued by the IRS and the California Franchise Tax Board, which protect distressed homeowners from debt relief income tax associated with a short sale in California,” said C.A.R. President Kevin Brown. “We would like to thank Sen. Boxer and BOE member Runner for their leadership in obtaining this guidance from the IRS and FTB. Distressed California homeowners can now avoid foreclosure or bankruptcy and can opt for a short sale instead, without incurring federal and state tax liability, even after the Mortgage Forgiveness Debt Relief Act of 2007 expires at the end of this year.”

Leading the way...® in California real estate for more than 100 years, the CALIFORNIA ASSOCIATION OF REALTORS® ([www.car.org](http://www.car.org)) is one of the largest state trade organizations in the United States with 165,000 members dedicated to the advancement of professionalism in real estate. C.A.R. is headquartered in Los Angeles.