

SB - 1055



Here is some good news for California homeowners who had all or part of their mortgage debt forgiven during 2008. Under Senate Bill 1055, signed by the Governor in September, some provisions of the federal Mortgage Forgiveness Debt Relief Act of 2007 have been extended to Californians – with a few notable differences.

Under the new California law, borrowers will not pay state taxes when lenders agree to a short sale, short payoff, loan modification or loan refinance that forgives up to \$1 million. Under the federal law, forgiven mortgage debt is excluded from taxable income from January 1, 2007 through December 31, 2008. Under the California law, however, the exclusion from state taxes period has been modified to January 1, 2007 through December 31, 2008. In a nod to the state's dire budget shortfall, beginning January 1, 2009 borrowers in California will be required to claim the forgiven debt as taxable ordinary income (not capital gains income) for the year in which the debt is forgiven.

Homeowners are encouraged to consult a professional tax and legal advisor to determine laws and ramifications pertaining to their own personal situation.

