

Short Sales – Leslie answers the tough questions



With short sales so prevalent and so many homeowners under financial distress, Leslie confronts head on the issues, questions and concerns facing so many families through a series of short newsletters.

Questions? Curious about *short sales*? Learn about the US Treasury's H.A.F.A. program, designed as a "graceful exit" for homeowners in distress.

Videos at DonNelsonTeam.com



Foreclosures and short sales... *are you taxed?*



When a distressed homeowner reaches the critical tipping point that keeping their home is no longer financially viable, one of the most fundamental decisions they will make is:

Should we just let the lender foreclose – or should we do a short sale?

And a closely followed 2nd question often is – what are the tax consequences, if any, between a short sale and a foreclosure?

You will receive a 1099-C from your lender for any cancellation of debt. But be aware of recent federal and California laws that generally exclude cancellation of debt income from ordinary income tax in a short sale or a foreclosure.

Also, be aware of the difference between recourse debt and nonrecourse debt.

And also be aware of potential capital gains tax.

To learn more:

- turn the page for more detail, or
- go online to www.DonNelsonTeam.com to learn about the US Treasury's HAFA program.

Always seek the advice from your tax advisor. Realtors are not qualified to provide legal or tax counsel.



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Curious to learn more about short sales? Please visit us at www.DonNelsonTeam.com

Hi,

Taxes are boring but incredibly important in decision making. Will I be taxed if I do a short sale or go through foreclosure?

The short answer is only your tax adviser can answer that question for you.

However, the general concept is that when debt is forgiven, it's generally considered to be income, and thus subject to taxation. But special federal and California laws were recently passed that generally exclude cancellation of debt income from ordinary income tax for homeowners who do a short sale or lose a home in foreclosure.

But be aware of the difference between recourse debt and non-recourse debt. Non-recourse is the kind of debt whereby the lender can't come back to you if they lose money on their loan through foreclosure. Purchase money loans in California are non-recourse debt.

Re-finances and lines of credit aren't purchase money loans so they are recourse loans. Potentially, a lender can come back to you and try to recover some of their loss.

Also be aware of capital gains tax. Most short sale/foreclosure properties don't have capital gains issues because they were bought for substantially more than their current worth. Capital gains might be involved if the property was owned for a long period of time and then re-financed, pulling cash out.

As always, seek advice from your tax advisor. Realtors are not qualified to provide legal or tax counsel.

To learn more, see two short videos about the US Treasury's HAFA short sale program on our website, www.DonNelsonTeam.com.

Questions? Curious about short sales? Give me a call or email me. I'd love to hear your story – and I'm very discreet.

Leslie Nelson