

Niello Introduces Measure To Ease Tax Burden On Short Sales And Loan Modifications

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Todd Moffitt (916) 319-2005
www.asm.ca.gov/Niello

Assemblymember.Niello@assembly.ca.gov

SACRAMENTO -Assemblyman Roger Niello (R-Fair Oaks) announced today that he has re-introduced legislation to help ease the tax burden of California families who have negotiated a short sale or been assisted with a loan modification.

When a lender has forgiven a portion of a homeowner's principal mortgage indebtedness, as in a short sale or loan modification situation, the amount of forgiven debt is considered taxable income under California state tax law. While the Congress has exempted this income under federal tax law through the 2012 tax year, the state has not taken action to conform. Until the state does conform, many unsuspecting homeowners who were able to negotiate a short sale or loan modification will face huge state income tax bills for the 2009 tax year.

Last year, Assemblyman Niello introduced Assembly Bill 111 which would have provided full California conformity to federal law by extending the state exemption through the 2012 tax year. Unfortunately, this legislation was held in an Assembly Committee when it failed to gather enough votes for passage.

As taxpayers begin to prepare their 2009 state income tax returns, the lack of an exemption on this forgiven debt is showing itself in the form of huge state tax liabilities."Since the failure of the bill last year, a number of taxpayers from all over the state have called my office to express their shock at the prospect of facing a huge state tax bill on their forgiven debt. One 70-year old woman from Gilroy told my staff that she faced a \$7,000 state income tax bill for forgiven debt on her 2009 short sale," said Assemblyman Niello.

"Congress has recognized that we should not add insult to injury by handing these huge tax bills to these displaced homeowners. California must act similarly."

"The reality is that any revenue the state might collect under this law is simply windfall revenue to the state that has resulted out of a total collapse in our housing market. In many cases, these tax bills are so large that many homeowners will be forced to declare bankruptcy and the state may never see the revenue. We need to act this year to ease the concerns of these taxpayers and fully conform to the federal exemption," said Assemblyman Niello.