Short Sales Surge Before Potential Tax Hike

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Real estate professionals are rushing to get short sales completed before the end of the year. That's when a tax break expires that could leave borrowers responsible for paying any unpaid mortgage debt.

Short sales from borrowers behind on their payments jumped 22 percent over last year for the three months ending Sept. 30, RealtyTrac reports. Short sales also jumped 17 percent among borrowers who were still current on their payments.

On Dec. 31, the Mortgage Debt Forgiveness Act is set to expire, and the number of short sales before that date is expected to jump much higher.

Unless lawmakers extend the Mortgage Debt Forgiveness Act, the IRS in January will treat any unpaid mortgage debt as taxable income for many borrowers.

As such, real estate agents are “encouraging people to sell before the tax break ends,” says Daren Blomquist, vice president of RealtyTrac. “ If that law expires, home owners who agree to short sales could see their income tax jump significantly because the portion of unpaid loan balance not covered by the short-sale proceeds will be considered taxable income in many cases.”

In some areas, borrowers won’t have to worry about the expiring act. For home owners in California, Arizona, and 10 other states, the IRS does not tax forgiven debt due to those states’ laws.

Source: “Short Sales Jump Ahead of Tax Hike,” CNNMoney (Dec. 6, 2012)