



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

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The Honorable Mark Schauer
Member, U.S. House of Representatives
800 West Ganson Street
Jackson, MI 49202

Attention:

Dear Congressman Schauer:

This letter responds to your inquiry dated June 24, 2010, on behalf of your constituent who was considering a short sale of her home. She asked if she can exclude from gross income the indebtedness on her principal residence cancelled after 2009 and if she should file Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment).

A taxpayer can exclude cancelled qualified principal residence indebtedness from gross income (section 108(a)(1)(E) of the Internal Revenue Code (the Code)). Qualified principal residence indebtedness is a mortgage that the taxpayer obtains to buy, build, or substantially improve the taxpayer's principal residence (section 108(h)(2) of the Code). The maximum amount a taxpayer can exclude is \$2 million (\$1 million for a married taxpayer filing a separate return). Prior to the enactment of the Emergency Economic Stabilization Act of 2008, this exclusion applied only to indebtedness cancelled prior to January 1, 2010. However, the Economic Stabilization Act extends this exclusion to qualified principal residence indebtedness cancelled before January 1, 2013.

Any taxpayer who excludes cancelled debt from gross income must complete Form 982 and file it with the federal income tax return for the taxable year when the cancellation occurs. The purpose of Form 982 is to report the exclusion and related adjustments to certain tax attributes. Because this exclusion from gross income now applies to

qualified principal residence indebtedness cancelled before 2013, your constituent should file Form 982 if she qualifies for this exclusion.

I hope this information is helpful. If you have any additional questions, please contact
or at .

Sincerely,

Andrew J. Keyso
Deputy Associate Chief Counsel
Income Tax & Accounting