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TaxNewsFlash

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Notice 2016-72: Discharge of qualified principal residence indebtedness

The IRS today released an advance version of Notice 2016-72 providing guidance concerning the discharge of qualified principal residence indebtedness that is initiated in 2016 but not completed before 2017.

The PATH Act (*Protecting Americas from Tax Hikes Act of 2015*) extended for two years—generally from January 1, 2015, through December 31, 2016—a provision that allows for the exclusion of income from the discharge of qualified principal residence indebtedness (with a modification for discharges pursuant to a binding written agreement entered into before January 1, 2017).

Notice 2016-72 [PDF 79 KB] clarifies that qualified principal residence indebtedness is discharged subject to an arrangement that is entered into and evidenced in writing before January 1, 2017, if:

- Before 2017, a mortgage servicer sends a borrower-homeowner (the taxpayer)—under the Federal Housing Finance Agency's (FHFA's) principal reduction modification program (PRMP)—a notice in conjunction with a written trial period plan (TPP) or, for a taxpayer in an active TPP, a separate notice in a written opt-out letter outlining the terms and conditions of the permanent mortgage loan modification following completion of the active TPP;
- The taxpayer satisfies all of the TPP and PRMP conditions; and
- The taxpayer and mortgage servicer enter into a permanent modification of the mortgage loan on or after January 1, 2017.

Today's guidance also applies to a TPP under the home affordable modification program (HAMP).

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