



TaxNewsFlash

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Rev. Proc. 2021-47: Federal tax treatment and information reporting of payments made on behalf of financially distressed homeowners (COVID-19)

The IRS today released an advance version of Rev. Proc. 2021-47 providing guidance that addresses the federal income tax treatment of and information reporting requirements for payments made by certain entities with funds allocated from the Homeowner Assistance Fund.

The Homeowner Assistance Fund was established under a provision of the “American Rescue Plan Act of 2021” (Pub. L. No. 117-2, enacted March 11, 2021) in an effort to provide relief to individuals in response to the coronavirus (COVID-19) pandemic.

[Rev. Proc. 2021-47](#) [PDF 125 KB] provides that a payment made to or on behalf of a homeowner from funds allocated from the Homeowner Assistance Fund is a qualified disaster relief payment (within the meaning of section 139(b)(4)) and as such, these payments are not included in the homeowner’s gross income.

The revenue procedure also provides an optional safe harbor method for homeowners to compute their itemized deductions for mortgage interest and real property taxes when in the same tax year they received, or benefited from, a payment from the Homeowner Assistance Fund, they also paid a portion of the mortgage interest and real property taxes with funds from their own sources.

Reporting by mortgage lenders

Regarding lenders who receive mortgage payments emanating from the Homeowner Assistance Fund, Rev. Proc. 2021-47 directs the lender **not** to report the interest received on Form 1098 as interest received on the homeowner’s mortgage. The revenue procedure, however, explains that mortgage insurance premiums treated as interest must be reported, without regard to the source, if the dollar threshold for reporting is met.

For lenders that erroneously reported interest received from the Homeowner Assistance Fund on Form 1098, the IRS will not assess information reporting penalties so long as the lender notifies the homeowner that the amounts reported are overstated, and the amount of the overstatement. Such notification should be made at the time Form 1098 is furnished to the homeowner or within 30 days thereafter. Notification can be provided in a separate statement (written or electronic), or included on Form 1098 in Box 10 labeled "Other".

The revenue procedure is effective on November 8, 2021, and applies to qualifying expenses paid after January 21, 2020.

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