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News Release

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H&R Block: Foreclosures Trigger Tax Liabilities

H&R Block Explains Tax Benefits of Recent Legislation

KANSAS CITY, Mo. – New home sales are down. Foreclosures are up. In fact, one out of every 416 homes in America received a foreclosure notice in August*, leaving many taxpayers scratching their heads to understand their tax liabilities.

"Homeownership is usually a benefit to one's tax situation. But, as more and more people experience a foreclosure, the complexity of their tax situations also increases," said Amy McAnarney, Executive Director of The Tax Institute at H&R Block (NYSE: HRB).

"Given the current housing market, tax professionals are advising more taxpayers on what they need to do when they file their returns," McAnarney said. "H&R Block tax preparers are seeing first-hand an increase in questions about the tax implications of foreclosures."

The recently passed Emergency Economic Stabilization Act includes tax breaks to Americans involved in a foreclosure, relieving some of their financial burden. EESA extends the Mortgage Forgiveness Debt Relief Act to 2013 -- it was originally scheduled to expire at the end of 2009.

Taxpayers will benefit from two kinds of "forgiven debt" on a primary residence. First, in efforts to not foreclose on a home, a lender may let the owner sell the home at a loss and forgive the remaining balance due on the loan. Second, a lender may foreclose on a principal residence then forgive the remaining debt owed. In both cases, that canceled debt is usually classified as taxable income.

However, the Mortgage Relief Act allows taxpayers to exclude such "forgiven debt" from taxable income, as long as the debt was incurred to buy, build, or substantially improve the residence. The exclusion applies only to acquisition debt up to \$2 million. Cancelled

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mortgage debt which was not used to buy, build or improve a principal residence is not eligible for this exclusion but may be eligible for some other type of relief.

"Because of the decline in the housing market, the number of people who qualify to utilize the new debt cancellation exclusion could increase," McAnarney said. "That's why it's even more important to consult your tax professional to ensure you are correctly utilizing the changes in the tax code involving debt cancellation and foreclosure."

* According to real estate tracking Web site www.realtytrac.com.

About H&R Block

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