

# Calif. lawmakers pass housing-crisis tax relief

## Calif. lawmakers approve tax relief for troubled homeowners as filing deadline approaches



SACRAMENTO, Calif. (AP) -- The Legislature passed a bill Thursday that could help many homeowners who were hurt by the housing crisis save thousands of dollars in taxes.

The bill would provide relief for homeowners who received mortgage modifications, lost their homes to foreclosure or sold their houses for less than they owed on their mortgages. It would prevent the canceled debt from being treated as taxable income.

Currently, some types of debts that are forgiven can be considered as income and taxed by the government, meaning that homeowners spared from an overwhelming mortgage can face huge tax bills.

Congress addressed the problem with the Mortgage Forgiveness Debt Relief Act of 2007. The recent legislative action conforms California law to that federal tax change, which runs through 2012.

"The mortgage debt tax relief provision in this bill will provide financial shelter for tens of thousands of Californians," said Sen. Ron Calderon, D-Whittier. "It's about time we gave these folks a helping hand. They've lost their homes and they've sat by fretting over a whopping state tax bill they can't afford."

The Assembly and Senate passed the bill after removing a provision about tax fraud penalties that drew objections from Republican Gov. Arnold Schwarzenegger.

The bill also specified that renewable energy companies that received grants through the American Recovery and Reinvestment Act would not have to report those grants as taxable income.

Schwarzenegger told reporters Thursday he intended to sign the bill.

"We want to give people the relief that they need, and we want to do everything we can for businesses, also for homeowners," Schwarzenegger said.

Taxpayers who already filed their 2009 returns can file an amended return, said Brenda Voet of the Franchise Tax Board. On the amended form, they would reduce their stated taxable income by the amount of debt that was forgiven.

Voet said the change would go into effect immediately after the governor signed the bill into law. Homeowners whose debt was forgiven and who have not yet filed their tax forms can omit the amount of forgiven debt when calculating their taxable income.

Some Republicans continued to oppose the legislation because it introduced a variety of tax increases. Assemblyman Ted Gaines said those tax increases could amount to \$82 million.

One change would expand the number of children whose unearned income is taxed at their parents' tax rate, rather than the lower tax rate those children previously enjoyed.

Another change would increase penalties to corporations that fail to file a return.

"It's awfully troubling when we're going to provide a benefit to one class of taxpayer and have another class pay for it," said Assemblyman Roger Niello, R-Sacramento.

Democrats said the tax increases were minor and explained that those changes also conformed California law to federal law.