



Our Mission: *To promote professionalism by providing quality educational events for tax professionals, creating and encouraging networking opportunities for members, & advocating professional standards & positions within the tax industry.*

President's Message

I would like to welcome our new members Ivan Cuy and Bruce Fanslow. We look forward to seeing you at our upcoming meetings. We have 31 members now.

Please all members put an effort into helping us grow our membership. CSTC is a great way for members to get their education requirements, keep up to date on new laws and share with fellow associates. CSTC as a State Wide Society has a goal of 2012 members by year 2012. CSTC member in good standing who bring in a new member will receive a \$25.00 Education Voucher from the Society. Members, when you give somebody an application form, be sure your name is on it so you receive the voucher. This is for each member you bring in. Lets all work together to achieve the goal "2012 by 2012".

Just a reminder: Dues renewal statements were mailed recently. Please don't forget to renew. Your membership is very important to you and to CSTC. Networking is our number one benefit, the more of us there are the bigger the benefit.

At the meeting I will have information regarding ordering the TAX BOOK. I am trying to purchase with another chapter to get a better price.

We are planning a seminar July 31, 2010. It will be 4 hours of California education and 2 hours of Ethics. These are very important CTEC credits. Please reserve the date so we can have a successful seminar. We are mailing 500 flyers in June and the same in July.

I have a CD with our Chapter Guide, By Laws, and Rooster of all Chapters. If you would like a CD, let me know. I will be happy to make a copy for you.

Carmen
Foothill Chapter President

Benefits of Foothill Chapter Membership:

Networking - Education - 2 hrs. Educations Credit per meeting
Updated legislation - State & Federal
Monthly meetings

Cost of CSTC Membership: \$155 initial fee - \$130 annual renewal
For a chapter near you call: (714) 750-2782 or go to www.cstcsociety.org

UPCOMING PROGRAMS

Thursday July 1, 2010 6:00pm

Dinner meeting
Speaker and Subject: TBA

LOCATION;

**American Legion
14929 E. Clark
City of Industry, CA**

Saturday July 31, 2010

8:00 am - 3:00 pm
Subject - California 4 hours
Speaker: Lila Fedler - State of California
Subject - Ethics 2 hours
Speaker - John Keil
CTEC 1000-CE-2929
Continental Breakfast and Lunch Provided

LOCATION;

**American Legion
14929 E. Clark
City of Industry, CA**

Thursday August 5, 2010 6:00pm

Dinner meeting
Speaker and Subject: TBA

LOCATION;

**American Legion
14929 E. Clark
City of Industry, CA**

CSTC Society & Chapter Education Programs:

CSTC on Line Education

California 4hr course/Ethics 2 hr course

TAX BRIDGE - December 2010

Registration Forms available at our chapter meeting or contact Society Office.

Golden Pot: All members are "in the pot." The "pot" starts at \$25 and increases by \$10 each meeting that a winner is not present.

Augie Beanez won the \$35.00 Golden Pot drawing in June. Golden Pot will be \$25.00 in July.

Be Sure to Attend the

July 1st Meeting

Speaker: TBA

Subject: TBA

FOOTHILL CHAPTER OFFICERS

President: Carmen Hustad 909-595-6032
Past President: Augustine Beanez 626 333-9167
1st Vice President:
2nd Vice President:
Secretary: Elaine Patterson 818-790-1719
Treasurer: Esther Lopez 626-289-9627

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Director: Victor Romero 626-483-9900

LOCATION:

American Legion
14929 E. Clark
City of Industry, CA

RESERVATIONS

Carmen K. Hustad
909-595-6032

carmkep@aol.com

Call or email for reservations
by Monday June 28th.

\$30.00 CSTC Members w/ reservation
\$35.00 for Non-Members or Members w/o reservation

Return Service Requested

1431 N. Pleasant Ave.
Ontario, CA 91764

CSTC - Foothill Chapter - July 2010
www.cstcsociety.org





June 2010

How do I Report a Short Sale?

In prior issues of Tax News we have addressed several issues related to foreclosures. In our February 2010 issue, we addressed how the State of California civil procedures interact with the Internal Revenue Code 108.

Four questions repeatedly come up regarding the proper treatment of a foreclosure/short sale. These four questions are:

- How do I report a foreclosure on property located in another state?
- What do I do if the taxpayer moves into or out of California before or after a foreclosure?
- How do I report cancellation of debt (COD) income if the creditor has not issued or refuses to issue a 1099C?
- How do I report a short sale?

The answers depend on each individual's facts, but first you must determine what type of a loan you are dealing with; that is, are the loan(s) at issue recourse or non-recourse.

In some cases you may be dealing with a client that has both a recourse and a non-recourse loan.

Although California has rules/law governing what a creditor can do to recover "purchase money" loans, California's rules are not binding in another states. The answer to the recourse or non-recourse question is based on the state's laws in which the property is/was located. Like California, each state has its own set of rules concerning what a creditor/lender can do to collect a debt. If your client's property is located outside California and sold as a foreclosure, sale under the deed of trust or mortgage, or short sale, you will need to review the creditor laws in that state to determine the proper classification of the loan(s) at issue. If the lender is able to pursue the borrower for payment of the remaining balance of the debt after the property is sold, the loan is recourse. If the lender's only remedy is to repossess the property used as collateral, the loan is non-recourse.

The type of loan also dictates how you report the deemed sale of the property.

Forgiveness at a non-recourse loan resulting from either a foreclosure or a short sale will not generate cancellation of debt income (COD). However, you do still need to address the other tax consequences, like reporting the sale (deemed sale).

The Form 1099A is issued when a borrower abandons secured property, or when a lender acquires property in full or partial satisfaction of a debt and the property was used as security for the debt. This is when you are treated as having a deemed sale.

If the debt is nonrecourse and the debt is discharged in connection with the sale or other disposition of the property, the full amount of debt is treated as part of the amount realized and the transaction is treated as a capital gain or loss. See IRC 7701 (g) and Reg. 1.1001-2.

IRC section 7701 (g) states the deemed sales price (FMV) cannot be less than the amount of any nonrecourse indebtedness to which such property is subject. Meaning you must use the outstanding debt as your sales price for purposes of determining if you have a gain or a loss, even if the amount of the debt is more than the sales price (FMV) of the property (short sale).

The 1099C is issued if the creditor abandons their right to collect a balance due (the deficiency) from the debtor of \$600 or more, and there is an identifiable event.

You do not have COD income until your debtor(s) cancels the debt (when the creditor(s) abandons their right to collect). IRC 61(a)(12) requires the inclusion of COD income; IRC regulation 1.61-12 states it is the discharge of indebtedness that results in the realization of income. Your creditors may not cancel the debt (this depends on what the state creditor laws allow) and may pursue collection of the full deficiency, in which case you would not have COD income to report.

For a recourse loan, you report the difference in the property's FMV and the outstanding balance as COD income in the year in which the lender forgives the deficiency. Generally, a 1099C is issued. You need to determine if one of the provisions in IRC 108 applies, which allows the COD income to be excluded based on the laws in place in the year of the discharge.

You report the deemed sale using the FMV as your sales price, and use your basis to determine if you have a gain or a loss.

When you are dealing with a client that has changed their state of residency, the issue involves the determination of when you have taxable COD income and the sourcing of such income. This may be a fact-intensive analysis and the answer may change based on the specific set of facts.

A California resident is taxed on all income, regardless of its source. A part-year resident is taxed on all income for any part of the taxable year the taxpayer was a resident of this state; regardless of source, plus for any part of the taxable year the taxpayer was a nonresident, income derived from sources within this state. A nonresident is taxed if they have California sourced income. R&TC section 17951 regulations provide guidance on nonresident's income from sources within this state. Regulation 17951-3 provides for the inclusion of gains realized from the sale or transfer of real or tangible property in this state.

California law currently allows taxpayers who had all or part of the loan balance on their principal residence forgiven by their lender to exclude the forgiven debt from California gross income. California law conforms, with modifications, to federal mortgage forgiveness debt relief for discharges that occurred in tax years 2007 through December 31, 2012. The amount of qualifying indebtedness is less than the federal amount, and California imposes a state-only limitation on the total amount of relief excluded from gross income.