

## A-1 Credit for me - Cancellation of Debt Information

CORRECTED (if checked)

CREDITOR'S name, street address, city, state, ZIP code, and telephone no.		1 Date of identifiable event	OMB No. 1545-1424	<div style="font-size: 2em; font-weight: bold;">2012</div> Cancellation of Debt  Form 1099-C	
		2 Amount of debt discharged \$			
		3 Interest if included in box 2 \$			
CREDITOR'S federal identification number	DEBTOR'S identification number	4 Debt description		<b>Copy B For Debtor</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.	
DEBTOR'S name		5 If checked, the debtor was personally liable for repayment of the debt . . . . . <input type="checkbox"/>			
Street address (including apt. no.)  City, state, and ZIP code					
Account number (see instructions)		6 Identifiable event code	7 Fair market value of property \$		

Form 1099-C
(keep for your records)
Department of the Treasury - Internal Revenue Service

Last year's cancelled debts are this year's tax burden. If you had a debt cancelled last year expect to receive a Form 1099-C with the amount of the debt cancelled in the early part of the year. When you prepare your federal tax return for this year, you're required to include the cancelled debt as income.

The IRS requires businesses to send a 1099-C to consumers if more than \$600 in debt was cancelled or forgiven. And, don't be surprised your creditor didn't warn you. Businesses aren't required to tell you the tax implications of canceling or forgiving debts.

Receiving a 1099-C could have huge implications on your tax refund for this year. Depending on the amount of debt cancelled and your other income, withholding amount, and exemptions, the cancelled debt may reduce any tax refund you were due or worse, you could send up *owing* taxes because of the cancelled debt.

### Why Are Debts Cancelled?

The lender may cancel your debt for a number of reasons:

- The [statute of limitations](#) expired.
- You've made an [debt settlement agreement](#) to pay part of the debt and have the other part cancelled.
- The lender has a business policy of discontinuing collection activity after a certain period of time.

## How is Cancelled Debt Considered Income?

When you borrow money, the business extends a payment to you. That payment may come in the form of a loan disbursement or a credit purchase. You have an agreement to pay the money back, so it's not subject to taxation or considered income at that point. However, when the business cancels the agreement, any amount that you haven't repaid is then considered income and subject to taxation.

If you receive a 1099-C from one of your creditors, don't throw it in the trash. This form is more than just a simple notification of debt cancellation. The fact that you received this form means the IRS has also received it and they're expecting you to include the income on your tax return.

Include the 1099-C with your other financial documents when you go to your tax preparer. Make sure your tax preparer has experience with this type of income or seek out a tax preparer who does. You don't want this issue to come back to haunt you. If you fail to include the income, your tax return may be rejected or the IRS will correct your return and adjust your refund or send you a bill for what's due. You could face fines and other penalties if the income isn't reported on time.

## Tax Income Reporting Exclusions

There are certain situations in which your debt can be cancelled, but you don't have to report it as taxable income.

- The debt was discharged in bankruptcy (unless the debt was incurred for business or investment purposes).
- Student loans that are forgiven by an educational institution that's tax-exempt *and* you work for a certain number of years for a qualified employer. (See [IRS Publication 970, Chapter 5](#) for more information.)
- The debt was from a mortgage on a primary residence lost in foreclosure, sold in a short sale, or from a restructured mortgage. You'll still need to include this forgiven mortgage on your tax return, but on Form 982, and shouldn't face any tax penalty on it. See [IRS Publication 908](#) for more information.
- You were insolvent by least the amount of the cancelled debt at the time the debt was cancelled. Being insolvent means your liabilities outweigh the fair market value of your assets. In other words, you had a negative net worth when the debt was cancelled. To take the insolvency exclusion for cancelled debt, you need to file [IRS Form 982](#).

## State Law For Cancelled Debts

Your state's tax law for cancelled debts may differ from that of federal tax law. Consult a tax professional, e.g. an accountant or attorney, to confirm your state's tax law about reporting cancelled debts as taxable income