

I GOT A FORM 1099-C (CANCELLATION OF DEBT) IN THE MAIL

In some cases, a creditor may provide a notice to the IRS that your debt to them has been cancelled (actually it has been “Discharged” by your bankruptcy). This is done on a Form 1099-C (Cancellation of Debt) – a sample copy and the instructions on the form are attached below. In normal cases, if you hadn’t filed a bankruptcy, the amount listed on this form would be treated as income paid to you during the year that the debt was forgiven. After all, you got money from the creditor and didn’t pay it back. If you hadn’t filed your bankruptcy case, you would have to pay income taxes on this “additional income.”

However, some good news! The IRS allows you to ignore this notice of additional income IF you can prove that you were “insolvent” at the time the debt was cancelled (or in this case “Discharged”). If you filed a bankruptcy on that particular debt, this alone is PROOF that you were insolvent when the debt was cancelled. If the debt was Discharged by your bankruptcy, you can ignore the notice of additional income. In some years, the IRS expects you to file a form indicating that you can ignore the additional income. (See the highlighted portion of the sample Form 1099-C for 2010 below). Notice that it states **“Also, do not include cancelled debts in your income to the extent you were insolvent immediately before the cancellation of the debt. If you exclude a cancelled debt from your income, file Form 982.”**

So, be sure to file a Form 982 with your tax return for the year that you received the 1099-C. A .pdf copy of Form 982 that you can print out is also located on this web page. Please note that the sample attached was updated in July of 2013. You might want to go to the IRS website to be sure that a newer, more recently updated form is not available.

However in recent years, the instructions on the Form 1099-C simply states that **“However, you may not have to include all of the cancelled debt in your income. There are exceptions and exclusions, such as bankruptcy and insolvency. See Pub. 4681, available at IRS.gov for more details.”** It would still be a good idea to include a Form 982 with your tax return even though the form is no longer referred to in the instructions.

CORRECTED (if checked)

CREDITOR'S name, street address, city, state, ZIP code, and telephone no.		1 Date canceled	OMB No. 1545-1424 2010 Form 1099-C	Cancellation of Debt
		2 Amount of debt canceled \$		
		3 Interest if included in box 2 \$		
CREDITOR'S federal identification number	DEBTOR'S identification number	4 Debt description		Copy B For Debtor 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				
Street address (including apt. no.)				
City, state, and ZIP code				
Account number (see instructions)		5 Was borrower personally liable for repayment of the debt? <input type="checkbox"/> Yes <input type="checkbox"/> No	6 Bankruptcy (if checked) <input type="checkbox"/>	7 Fair market value of property \$

Form **1099-C**

(keep for your records)

Department of the Treasury - Internal Revenue Service

Instructions for Debtor

Note. You may not have to include in income all or a portion of certain qualified principal residence indebtedness canceled in 2010. See Pub. 4681 for more information.

If a federal government agency, certain agencies connected with the Federal Government, financial institution, credit union, or an organization having a significant trade or business of lending money (such as a finance or credit card company) cancels or forgives a debt you owe of \$600 or more, this form must be provided to you. Generally, if you are an individual, you must include all canceled amounts, even if less than \$600, on the "Other income" line of Form 1040. If you are a corporation, partnership, or other entity, report the canceled debt on your tax return. See the tax return instructions.

However, some canceled debts are not includible, or fully includible, in your income, such as certain student loans, certain debts reduced by the seller after purchase, qualified farm debt, qualified real property business debt, qualified principal residence indebtedness, or debts canceled in bankruptcy. See Pub. 4681. Do not report a canceled debt as income if you did not deduct it but would have been able to do so on your tax return if you had paid it. Also, do not include canceled debts in your income to the extent you were insolvent immediately before the cancellation of the debt. If you exclude a canceled debt from your income, file Form 982.

Debtor's identification number. For your protection, this form may show only the last four digits of your social security number (SSN), individual taxpayer identification number (ATIN). However, the issuer has reported

your complete identification number to the IRS and, where applicable, to state and/or local governments.

Account number. May show an account or other unique number the creditor assigned to distinguish your account.

Box 1. Shows the date the debt was canceled.

Box 2. Shows the amount of debt canceled. **Note:** If you do not agree with this amount, contact your creditor.

Box 3. Shows interest if included in the canceled debt in box 2. See Pub. 525, to see if you must include the interest in gross income.

Box 4. Shows a description of the debt. If box 7 is completed, box 4 shows a description of the property.

Box 5. Shows whether borrower is personally liable for repayment of the debt. See Pub. 4681 for reporting instructions.

Box 6. If the box is marked, the creditor has indicated the debt was canceled in a bankruptcy proceeding.

Box 7. If, in the same calendar year, a foreclosure or abandonment of property occurred in connection with the cancellation of the debt, the fair market value (FMV) of the property will be shown, or you will receive a separate Form 1099-A. Generally, the gross foreclosure bid price is considered to be the FMV. For an abandonment or voluntary conveyance in lieu of foreclosure, the FMV is generally the appraised value of the property. You may have income or loss because of the acquisition or abandonment. If the property was your main home, see Pub. 523 to figure any taxable gain or ordinary income. See Pub. 4681 for information about foreclosures and abandonments.