



Publication 4731

Screening Sheet for Form 1099-C, Cancellation of Debt

NOTE: Only volunteers with a **Cancellation of Debt Certification** may assist taxpayers with Form 1099-C issues.



Instructions: Use this Screening Sheet to assist in identifying taxpayers with cancellation of debt issues that are within the scope of the VITA/TCE Program.

- Use Part I for taxpayers with a Form 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Part II for taxpayers with a Form 1099-C resulting from cancellation of credit card debt.

Part I – Home Mortgage Loan

step 1 Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their home mortgage lender and is the information shown on the form correct? **YES** – Go to Step 2
NO – Go to Step 6

step 2 Did the taxpayer ever use the home in a trade or business or as rental property? **YES** – Go to Step 6
NO – Go to Step 3

step 3 Does box 3 of Form 1099-C show any interest or was box 6 checked to indicate bankruptcy? **YES** – Go to Step 6
NO – Go to Step 4
NOTE: If the bankruptcy box is not checked but the taxpayer has subsequently filed bankruptcy, answer “yes”.

step 4 Ask the following questions to determine if the discharged debt is “qualified principal residence indebtedness”:

- a. Was the mortgage taken out to buy, build, or substantially improve the taxpayer’s principal residence? (NOTE: A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at any one time.) **YES** – Go to Step 4b
NO – Go to Step 6
- b. Was the mortgage secured by the taxpayer’s principal residence? **YES** – Go to Step 4c
NO – Go to Step 6
- c. Was any part of the mortgage used to pay off credit cards, purchase a car, pay for tuition, pay for a vacation, pay medical/dental expenses, or used for any other purpose other than to buy, build, or substantially improve the principal residence? **YES** – Go to Step 6
NO – Go to Step 4d
- d. Was the mortgage amount more than \$2 million (\$1 million if Married Filing Separately)? **YES** – Go to Step 6
NO – Go to Step 5

step 5 The discharged debt is “qualified principal residence indebtedness.”
The Mortgage Forgiveness Debt Relief Act of 2007, as extended in the Emergency Economic Stabilization Act of 2008, allows individuals to exclude from gross income any discharges of “qualified principal residence indebtedness” made after 2006 and before 2013. The volunteer should complete the applicable lines on Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer also may be required to report the disposition (sale) on Form 8949 and Schedule D.

step 6 These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved in the mortgage debt relief exclusions are complex.

Refer the taxpayer to:

- www.irs.gov for the most up-to-date information
- The Interactive Tax Assistance (ITA) on www.irs.gov to answer tax law questions. Type “ITA” in the key word search box.
- An IRS Representative: 1-800-829-1040
- An IRS Taxpayer Assistance Center (TAC)
- The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.
- A professional tax preparer

Additional Resources:

- Publication 523, Selling your Home
- Publication 525, Taxable and Nontaxable Income
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Publication 4705, Overview of Mortgage Debt Forgiveness
- Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions



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Part II – Credit Card Debt

step **1** Did the taxpayer receive Form 1099-C, Cancellation of Debt, or other documentation (if less than \$600) from a creditor and is the information shown on the form or document correct? **YES** – Go to Step 2
NO – Go to Step 6

NOTE: The creditor is not required to issue a Form 1099-C if the canceled debt is under \$600. However, the taxpayer may be required to report the canceled debt as income regardless of the amount.

step **2** Was the credit card debt related to a business? **YES** – Go to Step 6
NO – Go to Step 3

step **3** Does box 3 of Form 1099-C show any interest or was box 6 checked to indicate bankruptcy? **YES** – Go to Step 6
NO – Go to Step 4
NOTE: If the bankruptcy box is not checked but the taxpayer has subsequently filed bankruptcy, answer “yes”.

step **4** Based on the interview with the taxpayer, was the taxpayer insolvent immediately before the cancellation of the debt? **NOTE:** Insolvent means the taxpayer’s total liabilities were greater than the fair market value of his/her total assets (including an interest in pension plans and the value of retirement accounts). If the taxpayer is unsure, answer “yes.” **YES** – Go to Step 6
NO – Go to Step 5

step **5** The cancellation of nonbusiness credit card debt (the amount in box 2 of Form 1099-C or an amount less than \$600 provided in other documentation) must be reported as ordinary income on Form 1040, line 21 (Other Income). No additional supporting forms or schedules are required for reporting income from canceled credit card debt.

step **6** These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved are complex.

Refer the taxpayer to:

- www.irs.gov for the most up-to-date information
- An IRS Representative: 1-800-829-1040
- An IRS Taxpayer Assistance Center (TAC)
- The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.
- A professional tax preparer