In some cases, consumers may be able to negotiate to reduce or eliminate an outstanding debt. Creditors and debt buyers that cancel or forgive a debt (or portion of a debt) worth at least $600 must file an information Form 1099-C with the Internal Revenue Service by March 31 of the following year, and must also send a copy to the consumer.\(^303\) The principal of a cancelled or forgiven debt is generally considered taxable income to the consumer, although there are several important exceptions, including when the consumer disputes the debt, is insolvent, or is in bankruptcy.\(^304\) Certain student loan debt is also excluded.\(^305\) There was also an exception for the mortgage indebtedness of a taxpayer’s principal residence, but it expired on December 31, 2017 and has not yet been extended by Congress.\(^306\) When the consumer receives a Form 1099-C, they must take affirmative steps to claim one of the above exemptions. Generally, the consumer uses a Form 982 and check the appropriate box in Part I. Most qualified tax return preparers should be familiar with this form. Cancellation of debt and taxes is discussed in more detail in § 11.14.2.5 [1], infra.

Footnotes

303\(^{[303]}\) Treas. Reg. § 1.6050P-1(a).


305\(^{[305]}\) IRC § 108(f).


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[2] https://library.nclc.org/nclc/link/BANKR.15.05.05.06