

Lost Your Home to Foreclosure?

If a bank or mortgage company cancelled your loan and forgave your debt of \$600 or more, you will probably get a form like this:

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no.		1 Date of identifiable event	OMB No. 1545-1424 2013 Form 1099-C	Cancellation of Debt
		2 Amount of debt discharged \$		
		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		5 If checked, the debtor was personally liable for repayment of the debt <input type="checkbox"/>		
Street address (including apt. no.)				
City or town, province or state, country, and ZIP or foreign postal code				
Account number (see instructions)		6 Identifiable event code	7 Fair market value of property \$	

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

The IRS considers the amount of the debt that was cancelled to be taxable income to you, and it may try to make you pay a tax on the money you owed on the cancelled loan but did not pay.

If you get one of these Cancellation of Debt forms or a letter from the IRS, take them to your tax preparer. To find free tax help, call the IRS at **1-800-906-9887**.

If you are a low-income person and need more information, call The Community Tax Law Project at 804-358-5855 or 800-295-0110.

You may not have to pay any tax under certain conditions!

When may a cancelled debt be excluded from income?

The Internal Revenue Service recognizes situations in which a cancelled debt does not have to be reported as income.

Three situations are most likely to apply in either a foreclosure, a principal forgiveness as part of a restructuring of a loan, or to a credit card or other debt when you have reached a settlement that reduced the amount you owe.

You may not have to report cancelled debt as income in these situations:

- **FORECLOSURE, WORKOUT OR SHORT SALE** if this occurred under certain circumstances during or after 2007.
- **BANKRUPTCY** if this occurred under certain circumstances during or after 2007.
- **INSOLVENCY** if your total debts exceeded the total value of your assets at the time your debt was cancelled, settled, or deemed non-collectible.

How do you know you are insolvent?

You are insolvent if your total liabilities or debts were greater than your total assets at the time your debt was cancelled. Or put more simply - you owe more than the value of your assets.

For example, if your total debts were \$8,000 and the value of your total assets at the time were \$6,000, you subtract your assets from your debt and you are insolvent in the amount of \$2,000.

How do you decide the value of your assets?

Use the fair market value or what you would get if you sold them, rather than what you paid for them or what you think they are worth.

Take all of your financial records to your tax preparer at one of the **free** tax help sites. If you are insolvent you or your tax preparer must explain your insolvency to the IRS in one of two ways:

- By filling out IRS Form 982: Reduction of Tax Attributes Due to Discharge of Indebtedness

OR

- By attaching a detailed letter to your tax return explaining the calculation of your total debts and assets.

For more information, please contact

The Community Tax Law Project

Phone: (804) 358-5855 or (800) 295-0110

Email: info@ctlp.org Website: www.ctlp.org

This information is not legal advice. We are providing this information as a public service. We have tried to make it accurate as of the date below, but keep in mind that tax laws change frequently.

CTLP is a nonprofit organization that provides free legal help to low-income taxpayers who have tax problems. CTLP receives funding from the IRS but is not part of the IRS or the Virginia Department of Taxation. Your decision to use CTLP will not affect your rights before the IRS.