



# Lost Your Home to Foreclosure?

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

CORRECTED (if checked)

CREDITOR'S name, street address, city, state, ZIP code, and telephone no.		1 Date canceled	OMB No. 1545-1424  <b>2009</b> Form <b>1099-C</b>	<b>Cancellation of Debt</b>
		2 Amount of debt canceled \$		
		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 Was borrower personally liable for repayment of the debt? <input type="checkbox"/> Yes <input type="checkbox"/> No		
Street address (including City, state, and ZIP code)		6 Bankruptcy (if checked) <input type="checkbox"/>		
Account number (see instructions)		7 Fair market value of property \$		

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

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

You may not have to pay the tax under certain conditions.

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, dial 211 or 216-436-2000 or toll free 800-829-1040.

If you are a low-income person and need more information, check with the Legal Aid office in your county. In Ashtabula County call 440-576-8120 or toll free 866-873-9665; Cuyahoga County 216-687-1900 or toll free 888-817-3777; Lake or Geauga County 440-352-6200 or toll free 888-808-2800; Lorain County 440-323-8240 or toll free 800-444-7348.



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# Ways the IRS may Forgive a Cancelled Debt

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 owed.

*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 the debt was already discharged through a bankruptcy proceeding.

- **INSOLVENCY**

if your total debts exceeded your total assets at the time your debt was cancelled, settled, or deemed non-collectable.

### 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. Basically - you owe more than your assets.
- For example, if your total debts were \$8,000 and 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.



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