

## Worksheet Instructions for Debt Cancellation/Foreclosure/Repossession

### PLEASE READ THROUGH ALL SECTIONS!!

If you went through a foreclosure, repossession, "short sale" or had any other type of debt forgiven (Ex. Charge cards), then there are important tax issues that must be addressed on your return. The foreclosure, repossession or short sale involves the disposition of the property and there are possible gains or losses that may need to be recognized and/or exceptions documented. In certain situations, any of these transactions may result in cancellation of debt income which may be taxable. The point is that you not ignore the possible ramifications and bring in the needed documents and information.

In most cases, you should receive either a form 1099A or 1099C issued by the lenders involved. A sample of each is included in this file for your reference. These forms can be issued at ANY TIME of the year. Due to address changes inherent in such transactions sometimes these forms can get lost or not forwarded. If you do not receive either of these when you know you have gone through one of these we suggest you call the lender to try and get a copy sent to you. The critical information boxes have been highlighted on the samples so you know what to look for. Box 5 is a checkbox to indicate if you were personally liable for the debt. If this box is checked then the lender had a right to come back to you for repayment of any of the loan amount that was not paid from the foreclosure or sale of the property. In many cases this is checked but the lender has chosen not to pursue that right. This issue is critical as it changes which rules get applied to the transaction. In the case of a "short sale", you will not receive a 1099A or 1099C, but you should instead have had an actual closing and should have a copy of the closing statement from the lender or broker. Again, if you had a "short sale" and do not have the closing statement, call the lender or broker and obtain a copy.

In the case of charge card debt discharge or main home debt discharge or foreclosure, there are only two ways to escape any tax due. For both Federal and State purposes you must be either 1. Under a bankruptcy proceeding at the time of the discharge or 2. Were insolvent at the time of the discharge. Insolvent means that the amount of your liabilities (what you owe) are more than the value of your assets (what you own). We have provided a worksheet for you to use to gather and document the balances of your assets and liabilities **as of the date of discharge and before the debt was forgiven**. This sometimes requires you to go back quite a bit of time to get these figures, but unless you do you cannot take that exception. Complete the worksheet as best you can from your records...you may have to make some calls for old statements etc. and bring it along. Your preparer can help you fine tune it from there.

☐ CORRECTED (if checked)

LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0877 <b>2017</b> Form 1099-A		<b>Acquisition or Abandonment of Secured Property</b>  <b>Copy B For Borrower</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.
LENDER'S federal identification number	BORROWER'S identification number	1 Date of lender's acquisition or knowledge of abandonment	2 Balance of principal outstanding \$	
BORROWER'S name		3	4 Fair market value of property \$	
Street address (including apt. no.)		5 If checked, the borrower was personally liable for repayment of the debt <input type="checkbox"/>		
City or town, state or province, country, and ZIP or foreign postal code		6 Description of property		
Account number (see instructions)				

Form 1099-A

(keep for your records)

[www.irs.gov/form1099a](http://www.irs.gov/form1099a)

Department of the Treasury - Internal Revenue Service

☐ CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-1424 <b>2017</b> Form 1099-C		<b>Cancellation of Debt</b>  <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.
CREDITOR'S federal identification number	DEBTOR'S identification number	1 Date of identifiable event	2 Amount of debt discharged \$	
		3 Interest if included in box 2 \$	4 Debt description	
DEBTOR'S name		5 If checked, the debtor was personally liable for repayment of the debt <input type="checkbox"/>		
Street address (including apt. no.)		6 Identifiable event code		
City or town, state or province, country, and ZIP or foreign postal code		7 Fair market value of property \$		
Account number (see instructions)				

Form 1099-C

(keep for your records)

[www.irs.gov/form1099c](http://www.irs.gov/form1099c)

Department of the Treasury - Internal Revenue Service

# Cancellation of Debt - Insolvency

Debtor

ID#

Tax year 2016

Cancelled Debt	Creditor	Amount
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FORM 1099-C:  
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FORM 1099-C:

A. Total Cancelled Debt	\$	0
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## Date of Cancellation and Valuation of Assets/Liabilities

### Assets

Cash - checking accounts  
Cash - savings accounts  
Certificates of deposit  
Securities (stocks, bonds, mutual funds)  
Notes and contracts receivable  
Life insurance (cash surrender value)  
Personal property (art, jewelry, etc.)  
Retirement funds (IRAs, 401(k), etc.)  
Automobile #1  
Automobile #2  
Business assets (machinery & equipment)  
Real estate (market value)  
Other assets (specify)

B. Total Assets	\$	0
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### Liabilities

Current debt (credit cards, accounts)  
Notes payable  
Auto loans payable  
Education, student loans  
Taxes payable  
Real estate mortgages  
Other liabilities (specify)

C. Total Liabilities	\$	0
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D. Amount of Insolvency (C - B, NOT < 0)	\$	0
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E. Amount excluded from Income (lesser of A or D)	\$	0
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F. Amount Included in Income (A - D)	\$	0
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Explanation:

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