



Cancelled Debt Screening Tool

Use this tool when a taxpayer presents Form 1099-C for cancelled debt (or has other documentation if cancelled debt is under \$600), in order to determine if the return is within scope for VITA.

Ask the taxpayer:

Does the cancelled debt relate to the taxpayer's principal residence?

- If YES, use the Cancellation of Debt for Primary Residence - QPRI screening tool on CTC Resources to determine if the return is in scope for VITA.
- If NO, ask the taxpayer these questions:
 1. Was your debt for anything other than a personal credit card?
The taxpayer's debt description will be entered in Box 4 of Form 1099-C. The tax centers can only prepare returns with cancelled debt from a personal (non-business) credit card, with or without any interest listed in Box 3.
 2. Was your debt related to a business?
 3. Does Box 6 of the Form 1099-C have Code "A" for bankruptcy?
 4. Are you currently in bankruptcy or were you in bankruptcy when the debt was cancelled?
 5. Were you insolvent* immediately before the cancellation of debt?
*For help determining insolvency, use the Insolvency Determination Worksheet on the back of this page.

If the taxpayer answers YES to any of these five (5) questions, their return is out of scope for VITA. The Special Tax Services (STS) team can prepare returns with all types of cancellation of debt except when a taxpayer was or is in bankruptcy.

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Date of identifiable event	OMB No. 1545-1424
		2 Amount of debt discharged \$	2021 Form 1099-C
		3 Interest, if included in box 2 \$	
CREDITOR'S TIN	DEBTOR'S TIN	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.)			
City or town, state or province, country, and ZIP or foreign postal code		6 Identifiable event code	
Account number (see instructions)		7 Fair market value of property \$	

Cancellation of Debt

Copy B For Debtor

This is important tax information and is being furnished to the IRS. 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.

Form **1099-C** (keep for your records) www.irs.gov/Form1099C Department of the Treasury - Internal Revenue Service



Insolvency Determination Worksheet

Use this worksheet to help answer **Question 5: Were you insolvent immediately before the cancellation of debt?** Ask the taxpayer to total up their assets and their liabilities just prior to the debt being cancelled. This form is out of scope for VITA volunteers. The taxpayer must complete the form themselves.

➡ If their assets total more than their liabilities, the taxpayer was solvent right before the debt was cancelled and **the return is in scope**.

➡ If their liabilities total more than their assets, the taxpayer was insolvent right before the debt was cancelled and the **return is out of scope**.

This table is for the taxpayer to complete. They should include only assets and liabilities (including the debt to be cancelled) held just prior to the cancellation of debt.

Assets (Fair Market Value)		Liabilities	
Homes	\$	Mortgages	\$
Cars	\$	Home Equity Loans	\$
Recreational Vehicles, etc.	\$	Vehicle Loans	\$
Bank Accounts	\$	Personal Loans	\$
IRAs, 401Ks	\$	Credit Card Debt	\$
Jewelry	\$	Student Loans	\$
Clothes	\$	Other Liabilities	\$
Miscellaneous	\$	Past due mortgage interest, real estate taxes, utilities and/or child care amounts	
Other Assets	\$		\$
Total Assets:	\$	Total Liabilities:	\$

Total Assets minus Total Liabilities = \$ _____

Negative amount indicates insolvency • Positive amount indicates solvency

Note: If information on a taxpayer's Form 1099-C is incorrect, refer the taxpayer to Texas Rio Grande Legal Aid. The taxpayer may qualify to exclude all or some of the debt.