



These provisions, which previously expired at the end of 2017, have been renewed through tax year 2020. Refer to this tab and the Legislative Extenders lesson in Publication 4491 for information about these provisions.

# Discharge of Qualified Principal Residence Indebtedness

Use the job aid on the following page to determine if the debt forgiveness on the main home is within scope.

Taxpayers may exclude from income certain debt forgiven or canceled debt on their principal residence. This exclusion is applicable to the discharge of “qualified principal residence indebtedness.” If the canceled debt qualifies for exclusion from gross income, the debtor may be required to reduce tax attributes (certain credits, losses, and basis of assets) by the amount excluded.

If a property was taken by the lender (foreclosure) or given up by the borrower (abandonment), the lender usually sends the taxpayer Form 1099-A, Acquisition or Abandonment of Secured Property. Form 1099-A will have information needed to determine the gain or loss due to the foreclosure or abandonment.

If the debt is canceled, the taxpayer will receive Form 1099-C, Cancellation of Debt. If foreclosure/abandonment and debt cancellation occur in the same calendar year, the lender may issue only Form 1099-C, including the information that would be reported on Form 1099-A.

Volunteers may assist taxpayers who meet the following requirements:

- The home was never used in a business or as rental property
- The debt was not canceled because the taxpayer filed bankruptcy
- The taxpayer isn't in bankruptcy when he/she comes to the site for assistance
- Form 1099-C doesn't include an amount for interest
- The debt must be a mortgage used only to buy, build, or substantially improve the taxpayer's primary residence, i.e., this money was not used to pay off credit cards, medical/dental expenses, vacations, etc.
- The mortgage was secured by the taxpayer's primary residence
- The mortgage was not more than \$2 million (\$1 million if Married Filing Separately)



**TaxSlayer Hint:** To exclude debt forgiven on principal residence, go to Income>Less Common Income>Cancellation of Debt>Exclusions

**Note 1:** Form 1099-C, Box 3 (Interest if included in Box 2, Amount of Debt Canceled) and Box 6, Code A Out of Scope.

**Note 2:** If a bankruptcy, Out of Scope.

**Note 3:** If personally liable for the debt, sales price is the lesser of balance of principal outstanding (Form 1099-A, Box 2) or fair market value of property (Form 1099-A, Box 4); if not personally liable on the debt, sales price is the balance or principal outstanding.



# Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt

If the taxpayer is in bankruptcy, the tax return is Out of Scope for the VITA/TCE Programs.

**Instructions:** Use this Screening Sheet to assist taxpayers with Form(s) 1099-A and/or 1099-C with cancellation of debt issues.

- Use Part I for taxpayers with only Form 1099-A for a foreclosure or abandonment of their principal residence.
- Use Part II for taxpayers with Form 1099-C, or both Forms 1099-A and 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Publication 4731, Screening Sheet for Nonbusiness Credit Card Debt Cancellation, for taxpayers with Form 1099-C resulting from cancellation of credit card debt.

## Part I – Home Mortgage Loan

<b>STEP 1</b>	Did the taxpayer receive Form 1099-A, Acquisition or Abandonment of Secured Property, from their home mortgage lender?	<b>YES</b> – Go to Step 2 <b>NO</b> – Advise the taxpayer to get the documentation from the home mortgage lender.
<b>STEP 2</b>	Did the taxpayer ever use the home in a trade or business or as rental property?	<b>YES</b> – Go to Step 6 <b>NO</b> – Go to Step 3
<b>STEP 3</b>	Is Box 5 of Form 1099-A checked indicating a recourse loan in which the taxpayer is personally liable?	<b>YES</b> – The sales price is the lesser of Box 2 (Balance of principal outstanding) or Box 4 (Fair market value of property) on Form 1099-A. <b>NO</b> – The sales price is the amount in Box 2 (Balance of principal outstanding) on Form 1099-A. The taxpayer is not personally liable (nonrecourse loan).
<b>STEP 4</b>	Ask the taxpayer for the cost or basis of the home. Refer to Publication 523, Selling your Home, for further information, if needed.	
<b>STEP 5</b>	Report the sale of the personal residence on Form 8949, Sales and Other Disposition of Capital Assets, and Schedule D, Capital Gains and Losses. If the disposition of the property results in a: <b>Gain</b> – The taxpayer may qualify for the Section 121 exclusion (\$250,000 or \$500,000 if Married Filing Jointly) of the gain on the sale of a principal residence, if all requirements are met. <b>Loss</b> – The taxpayer cannot claim a loss on the sale or disposition of a principal residence. Use adjustment Code L on Form 8949 to exclude this loss. Refer to Publication 4012 (Legislative Extenders Tab), “Entering Forgiveness of Qualified Principal Residence Indebtedness” for further information.	
<b>STEP 6</b>	These tax issues are outside the scope of the volunteer program. <b>Refer the taxpayer to:</b> <ul style="list-style-type: none"> <li>• IRS website for the most up-to-date information.</li> <li>• The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.</li> <li>• A professional tax preparer.</li> </ul>	<b>Additional Resources:</b> <ul style="list-style-type: none"> <li>• Publication 523, Selling your Home</li> <li>• Publication 525, Taxable and Nontaxable Income</li> <li>• Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments</li> </ul>



# Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt

If the taxpayer is in bankruptcy, the tax return is Out of Scope for the VITA/TCE Programs.

**Instructions:** Use this Screening Sheet to assist taxpayers with Form(s) 1099-A and/or 1099-C with cancellation of debt issues.

- Use Part I for taxpayers with only Form 1099-A for a foreclosure or abandonment of their principal residence.
- Use Part II for taxpayers with Form 1099-C, or both Forms 1099-A and 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Publication 4731 for taxpayers with Form 1099-C resulting from cancellation of credit card debt.

## Part II – Home Mortgage Loan

<b>STEP 1</b>	Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their home mortgage lender and is the information shown on the form correct?	<b>YES</b> – Go to Step 2 <b>NO</b> – Go to Step 6
<b>Note:</b> Answer “yes” if the taxpayer has received a Form 1099-A and Form 1099-C.		
<b>STEP 2</b>	Did the taxpayer ever use the home in a trade or business or as rental property?	<b>YES</b> – Go to Step 6 <b>NO</b> – Go to Step 3
<b>STEP 3</b>	Does Box 3 of Form 1099-C show any interest or does Box 6 show code A indicating bankruptcy?	<b>YES</b> – Go to Step 6 <b>NO</b> – Go to Step 4
<b>Note:</b> If Box 6 is not marked with code A but the taxpayer has subsequently filed bankruptcy, answer “yes.”		
<b>STEP 4</b>	Ask the following questions to determine if the discharged debt is “qualified principal residence indebtedness:”	
	a. Was the mortgage taken out to buy, build, or substantially improve the taxpayer’s principal residence? ( <b>Note:</b> A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at any one time.)	a. <b>YES</b> – Go to Step 4b <b>NO</b> – Go to Step 6
	b. Was the mortgage secured by the taxpayer’s principal residence?	b. <b>YES</b> – Go to Step 4c <b>NO</b> – Go to Step 6
	c. Was any part of the mortgage used to pay off credit cards, purchase a car, pay for tuition, pay for a vacation, pay medical/dental expenses, or used for any other purpose other than to buy, build, or substantially improve the principal residence?	c. <b>YES</b> – Go to Step 6 <b>NO</b> – Go to Step 4d
	d. Was the mortgage amount more than \$2 million (\$1 million if Married Filing Separately)?	d. <b>YES</b> – Go to Step 6 <b>NO</b> – Go to Step 5
<b>STEP 5</b>	The discharged debt is “qualified principal residence indebtedness.” The volunteer should complete the applicable lines on Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer may be required to report the disposition (sale) on Form 8949 and Schedule D.	
<b>STEP 6</b>	<p>These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved in the mortgage debt relief exclusions are complex.</p> <p><b>Refer the taxpayer to:</b></p> <ul style="list-style-type: none"> <li>• IRS website for the most up-to-date information.</li> <li>• The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.</li> <li>• A professional tax preparer.</li> </ul>	<p><b>Additional Resources:</b></p> <ul style="list-style-type: none"> <li>• Publication 523, Selling your Home</li> <li>• Publication 525, Taxable and Nontaxable Income</li> <li>• Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments</li> <li>• Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions</li> </ul>