

Cancelled Debt Screening Tool

PAGE 1: SCREENING TOOL

Use this tool when a taxpayer presents Form 1099-C for cancelled debt or other documentation for cancelled debt under \$600, in order to determine if their return is within scope for VITA. If the cancelled debt relates to the taxpayer’s principal residence, please instead refer to Pub 4012.

Ask the following questions to the taxpayer:

- 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 an entry in Box 3.
- 2) Was your debt related to a business?
- 3) Does Box 6 of your Form 1099-C have a 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 questions, their return is out of scope for VITA. In such case, the Special Tax Services team can prepare all types of cancellation of debt except when a taxpayer was or is in bankruptcy.

8585 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1424	
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	<div style="font-size: 2em; font-weight: bold;">2020</div> Form 1099-C
		2 Amount of debt discharged \$	
		3 Interest, if included in box 2 \$	
CREDITOR'S TIN	DEBTOR'S TIN	4 Debt description	
DEBTOR'S name		5 Check here if 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			
Account number (see instructions)			
6 Identifiable event code		7 Fair market value of property \$	
Form 1099-C		Cancellation of Debt Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.	
Cat. No. 26280W		www.irs.gov/Form1099C Department of the Treasury - Internal Revenue Service	
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page			

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



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PAGE 2: INSOLVENCY DETERMINATION WORKSHEET

Use this worksheet for help in answering Question 5. This form is out of scope for VITA volunteers and is for the taxpayer to complete. Ask the taxpayer to total up their assets and their liabilities just prior to the debt being cancelled.



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.**



If their assets total more than their liabilities, the taxpayer was solvent right before the debt was cancelled and **the return is in 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 (FMV)		Liabilities	
Homes	_____	Mortgages	_____
Cars	_____	Home equity loans	_____
Recreational vehicles, etc.	_____	Vehicle loans	_____
Bank accounts	_____	Personal signature loans	_____
IRAs, 401Ks, etc.	_____	Credit card debts	_____
Jewelry	_____	Past due mortgage interest, real estate taxes, utilities and child care costs	_____
Furniture	_____	Student loans	_____
Clothes	_____	Other liabilities	_____
Misc.	_____	Total Liabilities:	_____
Other assets	_____		
Total Assets:	_____		

Total Assets minus Total Liabilities = \$ _____

Negative amount indicates insolvency

Positive amount indicates solvency

