

Discharge of Qualified Principal Residence Indebtedness



This provision has been renewed through tax year 2025. Refer to this tab and the Temporary Provisions lesson in [Publication 4491](#) for additional information.

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. See Foreclosure and Abandonment Key Highlights later in this tab.

- 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 with the discharge of qualified principal residence indebtedness if the following requirements are met (otherwise the return is Out of Scope):

- The home was never used in a business or as rental property
- The debt was not canceled because the taxpayer filed bankruptcy (Form 1099-C, Box 6, Code A)
- 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 in Box 3
- 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 \$750,000 (\$375,000 if Married Filing Separately).



To report cancellation of debt from Form 1099-C: *Income>Other Income>Cancellation of Debt>Cancellation of Debt (Form 1099-C); or Keyword CANC*



To exclude debt forgiven on principal residence using Form 982: *Income>Other Income>Cancellation of Debt>Exclusions*



To report the gain or loss from Form 1099-A: *See Tab D, Capital Gains or Losses Sale of Main Home for information on how to enter income.*

Screening Sheet for Foreclosures/Abandonments and Cancellation of Mortgage Debt (Page 1)



Publication 4731-A

Screening Sheet for Foreclosures/Abandonments and Cancellation of Mortgage Debt

If the taxpayer is in bankruptcy and has a discharge of qualified principal residence indebtedness, the tax return is Out of Scope.

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

1. Did the taxpayer receive Form 1099-A, Acquisition or Abandonment of Secured Property, from their home mortgage lender?

- Yes** – Go to Step 2
 No – Advise the taxpayer to get the documentation from the home mortgage lender.

2. Did the taxpayer ever use the home in a trade or business or as rental property?

- Yes** – Go to Step 6
 No – Go to Step 3

3. Is Box 5 of Form 1099-A checked indicating a recourse loan in which the taxpayer is personally liable?

- Yes** – 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, plus any proceeds the taxpayer received from the foreclosure sale.
 No – The sales price is the amount in Box 2 (Balance of principal outstanding) on Form 1099-A, plus any proceeds the taxpayer received from the foreclosure sale. The taxpayer is not personally liable (nonrecourse loan).

4. Ask the taxpayer for the cost or basis of the home.

Refer to Publication 523, Selling your Home, for further information, if needed.

5. 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:

Gain – 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.

Loss – 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.

See Foreclosure and Abandonment Key Highlights in Publication 4012 for further information. Do not go to Step 6.

6. These tax issues are outside the scope of the volunteer program.

Refer the taxpayer to:

- IRS website for the most up-to-date information
- A professional tax preparer.
- 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.

Additional Resources:

- Publication 523, Selling your Home
- Publication 525, Taxable and Nontaxable Income
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions

Screening Sheet for Foreclosures/Abandonments and Cancellation of Mortgage Debt (Page 2)

Part II – Home Mortgage Loan

1. Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their home mortgage lender and is the information shown on the form correct?

Yes – Go to Step 2

No – Go to Step 6

Note: Answer “yes” if the taxpayer has received a Form 1099-A and Form 1099-C.

2. Did the taxpayer ever use the home in a trade or business or as rental property?

Yes – Go to Step 6

No – Go to Step 3

3. Does Box 3 of Form 1099-C show any interest or does box 6 show code A indicating bankruptcy?

Yes – Go to Step 6

No – Go to Step 4

Note: If Box 6 is not marked with code A but the taxpayer has subsequently filed bankruptcy, answer “yes.”

4. 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? (**Note:** 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.)

Yes – Go to Step 4b

No – Go to Step 6

b. Was the mortgage secured by the taxpayer’s principal residence?

Yes – Go to Step 4c

No – 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?

Yes – Go to Step 6

No – Go to Step 4d

d. Was the mortgage amount more than \$750,000 (\$375,000 if Married Filing Separately)?

Yes – Go to Step 6

No – Go to Step 5

5. The discharged debt is “qualified principal residence indebtedness.”

The volunteer should complete the TaxSlayer screens for Form 1099-C and Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer also may be required to report the disposition (sale) on Form 8949 and Schedule D. Do **not** go to Step 6.

6. 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.


Refer the taxpayer to:

- IRS website for the most up-to-date information
- A professional tax preparer.
- 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.

Additional Resources:

- Publication 523, Selling your Home
 - Publication 525, Taxable and Nontaxable Income
 - Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
 - Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions
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Entering Forgiveness of Qualified Principal Residence Indebtedness

 *Income>Other Income>Cancellation of Debt 1099-C, 982>Exclusions (Form982) or Keyword: 982 or CANC*

Use the job aid on the preceding two pages to determine if the debt forgiveness on the main home is within scope.

The cancellation of debt must be entered in the Form 1099-C screen in TaxSlayer (see Tab D, Entering Cancellation of Debt). Also, **Form 982**, Reduction of Tax Attributes Due to Discharge of Indebtedness, must be filed with the taxpayer's return to report the excluded amount of discharged indebtedness and the reduction of certain tax attributes. Following are instructions for completing the Form 982 screens in TaxSlayer:

Reduction of Tax Attributes

Part I: General Information

Form belongs to

TAXPAYER EXAMPLE **1**

SPOUSE EXAMPLE

Amount excluded is due to (check applicable boxes):

Discharge of indebtedness in a title 11 case.

Discharge of indebtedness to the extent insolvent (not in a title 11 case).

Discharge of qualified farm indebtedness.

Discharge of qualified real property business indebtedness.

Discharge of qualified principal residence indebtedness. **2**

Total amount of discharged indebtedness excluded from gross income

\$

3

1. Indicate whether the Form 1099-C was issued to the taxpayer or spouse.
2. Check the box for Discharge of qualified principal residence indebtedness
3. Enter the amount of primary mortgage debt canceled (Form 1099-C, Box 2)

Entering Forgiveness of Qualified Principal Residence Indebtedness (continued)

Part II: Reduction of Tax Attributes

Enter amount excluded from gross income:

Discharge of qualified real property business indebtedness

\$

Elect under section 108(b)(5) to reduce basis. (If you enter anything here, you must write an explanation below)

\$

Any net operating loss

\$

Any general business credit

\$

Any minimum tax credit carryover

\$

Any net capital loss

\$

Basis of nondepreciable and depreciable property (line 10a)

\$

Basis of your principal residence (line 10b)

\$

4

Farm depreciable property used or held for use in business

\$

4. If the taxpayer had a portion of the mortgage debt canceled but kept the home (loan modification or mortgage workout), the basis of the principal residence is reduced as follows:

- In Part II, Reduction of Tax Attributes, on the line for “Basis of your principal residence” (line 10b) enter the smaller of:
 - The amount entered in Part I (see prior page)
 - The basis of your primary residence.

Foreclosure and Abandonment Key Highlights

If the taxpayer disposed of the home due to foreclosure or abandonment, and the lender canceled the remaining mortgage debt:

- No entry is made in Part II, Reduction of Tax Attributes
- Report the gain or loss from Form 1099-A in the Schedule D, Capital Gains section
 - The basis is the taxpayer's adjusted basis in the home
 - The sale price (amount realized) is based on whether the taxpayer is personally liable (recourse loan) or not personally liable (nonrecourse loan) for the debt:
 - If the taxpayer is personally liable, the sale price is the lesser of the balance of the principal mortgage debt outstanding (Form 1099-A, Box 2) or the fair market value (Form 1099-A, Box 4).
 - If the taxpayer isn't personally liable, then the sale price is the full amount of the outstanding debt, as reflected on Form 1099-A, Box 2.
 - For both recourse and nonrecourse loans, add any proceeds the taxpayer received from the foreclosure sale to the amount realized.
 - If the taxpayer ends up with a gain on the sale, some or all of the gain can be excluded under the rules for sale of main home, if the taxpayer qualifies. See Tab D.
 - A loss on the main home can't be deducted



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. In that case:

- Use Box 2 of Form 1099-C in place of Box 2 of Form 1099-A
- Use Box 7 of Form 1099-C in place of Box 4 of Form 1099-A