Publication 4681

Canceled Debts, Foreclosures, Repossessions, and Abandonments

(for Individuals)

For use in preparing

2023 Returns

Volume 1 of 2

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Publication 4681 (Rev 2023) Catalog Number 52429R
Department of the Treasury **Internal Revenue Service** www.irs.gov

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Future Developments

For the latest information about developments related to Pub. 4681, such as legislation enacted after it was published, go to *IRS.gov/ Pub4681*.

What's New

Discharge of qualified principal residence indebtedness before 2026. Qualified principal residence indebtedness can be excluded from income for discharges before January 1, 2026.

Reminders

Discharge of student loan debt. If your student loan debt was discharged, in whole or in part, after December 31, 2020, the amount of debt that was discharged may be nontaxable. See *Student Loans*, later.

Photographs of missing children. The Internal Revenue Service is a proud partner

with the *National Center for Missing & Exploited Children® (NCMEC).* Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 800-THE-LOST (800-843-5678) if you recognize a child.

Introduction

This publication explains the federal tax treatment of canceled debts, foreclosures, repossessions, and abandonments.

Generally, if you owe a debt to someone else and they cancel or forgive that debt for less than its full amount, you are treated for income tax purposes as having income and may have to pay tax on this income.

Note. This publication generally refers to debt that is canceled, forgiven, or discharged for less than the full amount of the debt as "canceled debt."

Sometimes a debt, or part of a debt, that you don't have to pay isn't considered canceled debt. These exceptions are discussed later under *Exceptions*.

Sometimes a canceled debt may be excluded from your income. But if you do exclude canceled debt from income, you may be required to reduce your “tax attributes.” These exclusions and the reduction of tax attributes associated with them are discussed later under *Exclusions*.

Foreclosure and repossession are remedies that your lender may exercise if you fail to make payments on your loan and you have previously granted that lender a mortgage or other security interest in some of your property. These remedies allow the lender to seize or sell the property securing the loan. When your property is foreclosed upon or repossessed and sold, you are treated as having sold the property and you may recognize taxable gain. Whether you also

recognize income from canceled debt depends in part on whether you are personally liable for the debt and in part on whether the outstanding loan balance is more than the fair market value (FMV) of the property. Figuring your gain or loss and income from canceled debt arising from a foreclosure or repossession is discussed later under *Foreclosures and Repossessions*.

Generally, you abandon property when you voluntarily and permanently give up possession and use of property you own with the intention of ending your ownership but without passing it on to anyone else. Figuring your gain or loss and income from canceled debt arising from an abandonment is discussed later under *Abandonments*.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through *IRS.gov/FormComments.* Or, you can write to

the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications. **Don't** send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at *IRS.gov/ Help/ITA* where you can find topics by using the search feature or viewing the categories listed.

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Useful Items

You may want to see:

Publication

- ☐ **225** Farmer's Tax Guide
- ☐ **334** Tax Guide for Small Business (For Individuals Who Use Schedule C)
- ☐ **523** Selling Your Home
- ☐ **525** Taxable and Nontaxable Income
- ☐ **536** Net Operating Losses (NOLs) for Individuals, Estates, and Trusts

- ☐ **542** Corporations
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **551** Basis of Assets
- ☐ **908** Bankruptcy Tax Guide

Form (and Instructions)

- ☐ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)
- ☐ **1099-C** Cancellation of Debt
- ☐ **1099-DIV** Dividends and Distributions
- ☐ **3800** General Business Credit

Common Situations Covered in This Publication

The sections of this publication that apply to you depend on the type of debt canceled, the tax attributes you have, and whether or not you continue to own the property that was

subject to the debt. Some examples of common circumstances are provided in the following paragraphs to help guide you through this publication. These examples don't cover every situation but are intended to provide general guidance for the most common situations.

Nonbusiness credit card debt cancellation. If you had a nonbusiness credit card debt canceled, you may be able to exclude the canceled debt from income if the cancellation occurred in a title 11 bankruptcy case or you were insolvent immediately before the cancellation. You should also read *Bankruptcy* or *Insolvency* under *Exclusions* in chapter 1 to see if you can exclude the canceled debt from income under one of those provisions. If you can exclude part or all of the canceled debt from income, you should also read *Bankruptcy and Insolvency* under *Reduction of Tax Attributes* in chapter 1.

Personal vehicle repossession. If you had a personal vehicle repossessed and disposed of by the lender during the year, you will need to determine your gain or nondeductible loss on the disposition. This is explained in chapter 2. If the lender also canceled all or part of the remaining amount of the loan, you may be able to exclude the canceled debt from income if the cancellation occurred in a title 11 bankruptcy case or you were insolvent immediately before the cancellation. You should read *Bankruptcy* or *Insolvency* under *Exclusions* in chapter 1 to see if you can exclude the canceled debt from income under one of those provisions. If you can exclude part or all of the canceled debt from income, you should also read *Bankruptcy and Insolvency* under *Reduction of Tax Attributes* in chapter 1.

Main home foreclosure or abandonment. If a lender foreclosed on your main home during the year, you will need to determine

your gain or loss on the foreclosure. Foreclosures are explained in chapter 2 and abandonments are explained in chapter 3.

Main home loan modification (workout agreement). If a lender agreed to a mortgage loan modification (a "workout") in 2022 that included a reduction in the principal balance of the loan in 2023, you should read *Qualified Principal Residence Indebtedness* under *Exclusions* in chapter 1 to see if you can exclude part or all of the canceled debt from income. If you can exclude part or all of the canceled debt from income, you should also read *Qualified Principal Residence Indebtedness* under *Reduction of Tax Attributes* in chapter 1.

1.

Canceled Debts

This chapter discusses the tax treatment of canceled debts.

General Rules

Generally, if a debt for which you are personally liable is forgiven or discharged for less than the full amount owed, the debt is considered canceled in whatever amount it remained unpaid. There are exceptions to this rule, discussed under *Exceptions*, later. Generally, you must include the canceled debt in your income. However, you may be able to exclude the canceled debt. See *Exclusions*, later.

Example. You owed your friend $1,000. Your friend agreed to accept and you paid $400 in satisfaction of the entire debt. You have canceled debt of $600.

Example. You owed your friend.$1,000. You both agreed that you would provide your friend with services (instead of money) in full satisfaction of the debt. You don't have canceled debt. Instead, you have income

from services. A debt includes any indebtedness:

- For which you are liable, or
- Subject to which you hold property.

Debt for which you are personally liable is recourse debt. All other debt is nonrecourse debt.

If you aren't personally liable for the debt, you don't have ordinary income from the cancellation of debt unless you retain the collateral and either:

- The lender offers a discount for the early payment of the debt, or
- The lender agrees to a loan modification that results in the reduction of the principal balance of the debt.

See *Discounts and Loan Modifications*, later.

However, upon the disposition of the property securing a nonrecourse debt, the amount

realized includes the entire unpaid amount of the debt, not just the FMV of the property. As a result, you may realize a gain or loss if the outstanding debt immediately before the disposition is more or less than your adjusted basis in the property. For more details on figuring your gain or loss, see chapter 2 of this publication or see Pub. 544.

There are several exceptions and exclusions that may result in part or all of a canceled debt being nontaxable. See *Exceptions* and *Exclusions,* later. You must report any taxable canceled debt as ordinary income on:

- Schedule 1 (Form 1040), line 8c, if the debt is a nonbusiness debt;
- Schedule C (Form 1040), line 6, if the debt is related to a nonfarm sole proprietorship;
- Schedule E (Form 1040), line 3, if the debt is related to nonfarm rental of real property;

- Form 4835, line 6, if the debt is related to a farm rental activity for which you use Form 4835 to report farm rental income based on crops or livestock produced by a tenant; or
- Schedule F (Form 1040), line 8, if the debt is farm debt and you are a farmer.

Form 1099-C

If you receive a Form 1099-C, that means an applicable entity has reported an identifiable event to the IRS regarding a debt you owe. For information on the reasons an applicable entity files Form 1099-C, see *Identifiable event codes*, later. Unless you meet one of the exceptions or exclusions discussed later, this canceled debt is ordinary income and must be reported on the appropriate form discussed above.

If you had a student loan that was discharged after December 31, 2020, and the amount of the discharged loan is nontaxable, you won't receive a Form 1099-C from the lender or servicer of your student loan.

An applicable entity includes the following.

1. A financial institution.
2. A credit union.
3. Any of the following, its successor, or subunit of one of the following.
    a. The Federal Deposit Insurance Corporation (FDIC).
    b. The Resolution Trust Corporation (RTC).
    c. The National Credit Union Administration (NCUA).

d. Any other federal executive agency, including government corporations, any military department, the U.S. Postal Service, or the Postal Rate Commission.

4. A corporate subsidiary of a financial institution or credit union (if the affiliation subjects the subsidiary to federal or state regulation).

5. A federal government agency, including a department, an agency, a court or court administrative office, or a judicial or legislative instrumentality.

6. Any organization of which lending money is a significant trade or business.

For more information on the applicable entities that must file a Form 1099-C, see the Instructions for Forms 1099-A and 1099-C, available at *irs.gov/instructions/i1099ac*.

Identifiable event codes. Box 6 of Form 1099-C should indicate the reason the creditor filed this form. The codes shown in box 6 are explained next. Also, see the chart after the explanation for a quick reference guide for the codes used in box 6.

Code A—Bankruptcy. Code A is used to identify cancellation of debt as a result of a title 11 bankruptcy case. See *Bankruptcy*, later.

Code B—Other judicial debt relief. Code B is used to identify cancellation of debt as a result of a receivership, foreclosure, or similar federal or state court proceeding other than bankruptcy.

Code C—Statute of limitations or expiration of deficiency period. Code C is used to identify cancellation of debt either when the statute of limitations for collecting the debt expires or when the statutory period for filing a claim or beginning a deficiency judgment proceeding expires. In the case of

the expiration of a statute of limitations, an identifiable event occurs only if and when your affirmative defense of the statute of limitations is upheld in a final judgment or decision in a judicial proceeding, and the period for appealing the judgment or decision has expired.

Code D—Foreclosure election. Code D is used to identify cancellation of debt when the creditor elects foreclosure remedies that statutorily end or bar the creditor's right to pursue collection of the debt. This event applies to a mortgage lender or holder who is barred from pursuing debt collection after a power of sale in the mortgage or deed of trust is exercised.

Code E—Debt relief from probate or similar proceeding. Code E is used to identify cancellation of debt as a result of a probate court or similar legal proceeding.

Code F—By agreement. Code F is used to identify cancellation of debt as a result of an agreement between the creditor and the debtor to cancel the debt at less than full consideration.

Code G—Decision or policy to discontinue collection. Code G is used to identify cancellation of debt as a result of a decision or a defined policy of the creditor to discontinue collection activity and cancel the debt. For purposes of this identifiable event, a defined policy includes both a written policy and the creditor's established business practice.

Code H—Other actual discharge before identifiable event. Code H is used to identify an actual cancellation of debt that occurs before any of the identifiable events described in codes A through G.

Form 1099-C Reference Guide for Box 6 Identifiable Event Codes

A	Bankruptcy
B	Other judicial debt relief
C	Statute of limitations or expiration of deficiency period
D	Foreclosure election
E	Debt relief from probate or similar proceeding
F	By agreement
G	Decision or policy to discontinue collection
H	Other actual discharge before identifiable event

Even if you didn't receive a Form 1099-C, you must report canceled debt as gross income on your tax return unless one of the exceptions or exclusions described later applies.

Amount of canceled debt. The amount in box 2 of Form 1099-C may represent some or all of the debt that has been canceled. The amount in box 2 will include principal and may include interest and other nonprincipal amounts (such as fees or penalties). Unless you meet one of the exceptions or exclusions discussed later, the amount of the debt that has been canceled is ordinary income and must be reported on the appropriate form, as discussed earlier.

Interest included in canceled debt. If any interest is included in the amount of canceled debt in box 2, it will be shown in box 3. Whether the interest portion of the canceled debt must be included in your income depends on whether the interest would be

deductible if you paid it. See *Deductible Debt* under *Exceptions,* later.

Persons who each receive a Form 1099-C showing the full amount of debt. If you and another person were jointly and severally liable for a canceled debt, each of you may get a Form 1099-C showing the entire amount of the canceled debt. However, you may not have to report that entire amount as income. The amount, if any, you must report depends on all the facts and circumstances, including:

- State law,
- The amount of debt proceeds each person received,
- How much of any interest deduction from the debt was claimed by each person,
- How much of the basis of any co-owned property bought with the debt proceeds was allocated to each co-owner, and

- Whether the canceled debt qualifies for any of the exceptions or exclusions described in this publication.

See *Example 3* under *Insolvency*, later.

Discounts and Loan Modifications

If a lender discounts (reduces) the principal balance of a loan because you pay it off early, or agrees to a loan modification (a "workout") that includes a reduction in the principal balance of a loan, the amount of the discount or the amount of principal reduction is canceled debt. However, if the debt is nonrecourse and you didn't retain the collateral, you don't have cancellation of debt income. The amount of the canceled debt must be included in income unless one of the exceptions or exclusions described later applies. For more details, see *Exceptions* and *Exclusions*, later.

Sales or Other Dispositions (Such as Foreclosures and Repossessions)

Recourse debt. If you owned property that was subject to a recourse debt in excess of the FMV of the property, the lender's foreclosure or repossession of the property is treated as a sale or disposition of the property by you and may result in your realization of gain or loss. The gain or loss on the disposition of the property is measured by the difference between the FMV of the property at the time of the disposition and your adjusted basis (usually your cost) in the property. The character of the gain or loss (such as ordinary or capital) is determined by the character of the property. If the lender forgives all or part of the amount of the debt in excess of the FMV of the property, the cancellation of the excess debt may result in ordinary income. The ordinary income from the cancellation of debt (the excess of the

canceled debt over the FMV of the property) must be included in your gross income reported on your tax return unless one of the exceptions or exclusions described later applies. For more details, see *Exceptions* and *Exclusions,* later.

Nonrecourse debt. If you owned property that was subject to a nonrecourse debt in excess of the FMV of the property, the lender's foreclosure on the property doesn't result in ordinary income from the cancellation of debt. The entire amount of the nonrecourse debt is treated as an amount realized on the disposition of the property. The gain or loss on the disposition of the property is measured by the difference between the total amount realized (the entire amount of the nonrecourse debt plus the amount of cash and the FMV of any property received) and your adjusted basis in the property. The character of the gain or loss is determined by the character of the property.

More information. See chapter 2 of this publication and Pubs. 523, 544, and 551 for more details.

Abandonments

Recourse debt. If you abandon property that secures a debt for which you are personally liable (recourse debt) and the debt is canceled, you will realize ordinary income equal to the canceled debt. You must report this income on your tax return unless one of the exceptions or exclusions described later applies. For more details, see *Exceptions* and *Exclusions,* later. This income is separate from any amount realized from the abandonment of the property. For more details, see chapter 3.

Nonrecourse debt. If you abandon property that secures a debt for which you aren't personally liable (nonrecourse debt), you may realize gain or loss but won't have cancellation of indebtedness income.

Stockholder Debt

If you are a stockholder in a corporation and the corporation cancels or forgives your debt to it, the canceled debt is a constructive distribution. For more information, see Pub. 542.

Exceptions

There are several exceptions to the requirement that you include canceled debt in income. These exceptions apply before the exclusions discussed later and don't require you to reduce your tax attributes.

Gifts, Bequests, Devises, and Inheritances

In most cases, you don't have income from canceled debt if the debt is canceled as a gift, bequest, devise, or inheritance.

Student Loans

Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude amounts from gross income as a result of the cancellation or repayment of certain student loans. These exclusions are for:

- Student loan cancellation due to meeting certain work requirements;
- Cancellation of certain loans after December 31, 2020, and before January 1, 2026; or
- Student loan repayment assistance programs.

Exclusion for student loan cancellation due to meeting certain work requirements. If your student loan is canceled in part or in whole in 2023 due to meeting certain work requirements, you may not have to include the canceled debt in your income. To qualify for this work-related exclusion, your loan must have been made by a qualified lender to assist you in attending an eligible educational organization described in section 170(b)(1)(A)(ii). In addition, the cancellation must be pursuant to a provision in the student loan that all or part of the debt will be canceled if you work:

- For a certain period of time,
- In certain professions, and
- For any of a broad class of employers.

The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization or tax-exempt section 501(c)(3) organization

and was canceled because of the services you performed for either organization. See Exception*, later.*

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Qualified lenders. These include the following.

1. The United States, or an instrumentality or agency thereof.
2. A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
3. A public benefit corporation that is tax-exempt under section 501(c)(3); and that has assumed control of a state, county, or municipal hospital; and

whose employees are considered public employees under state law.

4. An educational organization described in section 170(b)(1)(A)(ii), if the loan is made:

   a. As part of an agreement with an entity described in (1), (2), or (3) under which the funds to make the loan were provided to the educational organization; or

   b. Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where services provided by the students (or former students) are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.

Special rule for student loan discharges for 2021 through 2025. The American Rescue Plan Act of 2021 modified the treatment of student loan forgiveness for discharges in 2021 through 2025. Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude this amount from gross income if the loan was one of the following.

- A loan for postsecondary educational expenses.
- A private education loan.
- A loan from an educational organization described in section 170(b)(1)(A)(ii).
- A loan from an organization exempt from tax under section 501(a) to refinance a student loan.

Loan for postsecondary educational expenses. This is any loan provided expressly for postsecondary education, regardless of whether provided through the educational organization or directly to the borrower, if such loan was made, insured, or guaranteed by one of the following.

- The United States, or an instrumentality or agency thereof.
- A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
- An eligible educational organization.

Eligible educational organization. An eligible educational organization is generally any accredited public, nonprofit, or proprietary (privately owned profit-making) college, university, vocational school, or other postsecondary educational organization. Also, the organization must be eligible to participate in a student aid program

administered by the U.S. Department of Education.

An eligible educational organization also includes certain educational organizations located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

The educational organization should be able to tell you if it is an eligible educational organization.

Private education loan. A private education loan is a loan provided by a private educational lender that:

- Is not made, insured, or guaranteed under Title IV of the Higher Education Act of 1965; and
- Is issued expressly for postsecondary educational expenses to a borrower, regardless of whether the loan is provided through the educational organization that

the student attends or directly to the borrower from the private educational lender. A private education loan does not include an extension of credit under an open end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling.

Private educational lender. A private educational lender is one of the following.

- A financial institution that solicits, makes, or extends private education loans.
- A federal credit union that solicits, makes, or extends private education loans.
- Any other person engaged in the business of soliciting, making, or extending private education loans.

The cancellation of your loan won't qualify for tax-free treatment if it is canceled because of services you performed for the private educational lender that made the loan or other organization that provided the funds.

Loan from an educational organization described in section 170(b)(1)(A)(ii). This is any loan made by the organization if the loan is made:

- As part of an agreement with an entity described earlier under which the funds to make the loan were provided to the educational organization; or
- Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where the services provided by the students (or former students) are for or under the direction of a governmental unit

or a tax-exempt section 501(c)(3) organization.

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization, a tax-exempt section 501(c)(3) organization, or a private education lender (as defined in section 140(a)(7) of the Truth in Lending Act) and was canceled because of the services you performed for either such organization or private education lender. See Exception*, later.*

Section 501(c)(3) organization. This is any corporation, community chest, fund, or foundation organized and operated

exclusively for one or more of the following purposes.

- Charitable.
- Religious.
- Educational.
- Scientific.
- Literary.
- Testing for public safety.
- Fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment).
- The prevention of cruelty to children or animals.

Exception. In most cases, the cancellation of a student loan made by an educational organization because of services you performed for that organizationn or another organization that provided the funds for the

loan must be included in gross income on your tax return.

Refinanced loan. If you refinanced a student loan with another loan from an eligible educational organization or a tax-exempt organization, that loan may also be considered as made by a qualified lender. The refinanced loan is considered made by a qualified lender if it's made under a program of the refinancing organization that is designed to encourage students to serve in occupations with unmet needs or in areas with unmet needs where the services required of the students are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.

Student loan repayment assistance. Student loan repayments made to you are tax free if you received them for any of the following.

- The National Health Service Corps (NHSC) Loan Repayment Program.

- A state education loan repayment program eligible for funds under the Public Health Service Act.
- Any other state loan repayment or loan forgiveness program that is intended to provide for the increased availability of health services in underserved or health professional shortage areas (as determined by such state).

You can't deduct the interest you paid on a student loan to the extent payments were made through your participation in any of the above programs.

Deductible Debt

If you use the cash method of accounting, you don't realize income from the cancellation of debt if the payment of the debt would have been a deductible expense. This exception applies before the price reduction exception discussed next.

Example. In December 2022, you get accounting services for your farm on credit. In early 2023, you have trouble paying your farm debts and your accountant forgives part of the amount you owe for the accounting services. How you treat the canceled debt depends on your method of accounting.

- Cash method. You don't include the canceled debt in income because payment of the debt would have been deductible as a business expense in 2023.
- Accrual method. Unless another exception or exclusion applies, you must include the canceled debt in ordinary income because the expense was deductible in 2022 when you incurred the debt.

Price Reduced After Purchase

If debt you owe the seller for the purchase of property is reduced by the seller at a time when you aren't insolvent and the reduction doesn't occur in a title 11 bankruptcy case,

the reduction doesn't result in cancellation of debt income. However, you must reduce your basis in the property by the amount of the reduction of your debt to the seller. The rules that apply to bankruptcy and insolvency are explained in *Exclusions* next.

Exclusions

After you have applied any exceptions to the general rule that a canceled debt is included in your income, there are several reasons why you might still be able to exclude a canceled debt from your income. These exclusions are explained next. If a canceled debt is excluded from your income, it is nontaxable. In most cases, however, if you exclude canceled debt from income under one of these provisions, you must also reduce your tax attributes (certain credits, losses, and basis of assets) as explained later under *Reduction of Tax Attributes*.

Bankruptcy

Debt canceled in a title 11 bankruptcy case isn't included in your income. A title 11 bankruptcy case is a case under title 11 of the United States Code (including all chapters in title 11 such as chapters 7, 11, and 13). You must be a debtor under the jurisdiction of the court and the cancellation of the debt must be granted by the court or occur as a result of a plan approved by the court.

You don’t qualify for the bankruptcy exclusion by being an owner of, or a partner in a partnership that owns, a grantor trust or disregarded entity that is a debtor in a title 11 bankruptcy case. You must be a debtor in a title 11 bankruptcy case to qualify for this exclusion.

How to report the bankruptcy exclusion. To show that your debt was canceled in a bankruptcy case and is excluded from income, attach Form 982 to your federal

income tax return and check the box on line 1a. Lines 1b through 1e don't apply to a cancellation that occurs in a title 11 bankruptcy case. Enter the total amount of debt canceled in your title 11 bankruptcy case on line 2. You must also reduce your tax attributes in Part II of Form 982, as explained under *Reduction of Tax Attributes*, later.

Insolvency

Don't include a canceled debt in income to the extent that you were insolvent immediately before the cancellation. You don’t qualify for the insolvency exclusion by being an owner of, or a partner in a partnership that owns, a grantor trust or disregarded entity that is insolvent. You must be insolvent to qualify for this exclusion. You were insolvent immediately before the cancellation to the extent that the total of all of your liabilities was more than the FMV of all of your assets immediately before the cancellation. For purposes of determining insolvency, assets

include the value of everything you own (including assets that serve as collateral for debt and exempt assets, which are beyond the reach of your creditors under the law, such as your interest in a pension plan and the value of your retirement account). Liabilities include:

- The entire amount of recourse debt;
- The amount of nonrecourse debt that isn't in excess of the FMV of the property that is security for the debt; and
- The amount of nonrecourse debt in excess of the FMV of the property subject to the nonrecourse debt, to the extent nonrecourse debt in excess of the FMV of the property subject to the debt is forgiven.

You can use the Insolvency Worksheet to help calculate the extent that you were insolvent immediately before the cancellation.

Other exclusions must be applied before the insolvency exclusion. This exclusion doesn't apply to a cancellation of debt that occurs in a title 11 bankruptcy case. It also doesn't apply if the debt is qualified principal residence indebtedness (defined in this section under *Qualified Principal Residence Indebtedness*, later) unless you elect to apply the insolvency exclusion instead of the qualified principal residence indebtedness exclusion.

How to report the insolvency exclusion. To show that you are excluding canceled debt from income under the insolvency exclusion, attach Form 982 to your federal income tax return and check the box on line 1b. On line 2, include the smaller of the amount of the debt canceled or the amount by which you

were insolvent immediately before the cancellation. You can use the Insolvency Worksheet to help calculate the extent that you were insolvent immediately before the cancellation. You must also reduce your tax attributes in Part II of Form 982, as explained under *Reduction of Tax Attributes*, later.

Example 1—amount of insolvency more than canceled debt. In 2023, you were released from an obligation to pay a personal credit card debt in the amount of $5,000. You received a 2023 Form 1099-C from the credit card lender showing the entire amount of discharged debt of $5,000 in box 2. None of the exceptions to the general rule that canceled debt is included in income apply. You use the Insolvency Worksheet to determine that the total liabilities immediately before the cancellation were $15,000 and the FMV of the total assets immediately before the cancellation was $7,000. This means that immediately before the cancellation, you were

insolvent to the extent of $8,000 ($15,000 total liabilities minus $7,000 FMV of the total assets). Because the amount by which you were insolvent immediately before the cancellation was more than the amount of debt canceled, you can exclude the entire $5,000 canceled debt from income.

When completing the tax return, you check the box on line 1b of Form 982 and enter $5,000 on line 2. You complete Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. You don't include any of the $5,000 canceled debt on Schedule 1 (Form 1040), line 8c. None of the canceled debt is included in income.

Example 2—amount of insolvency less than canceled debt. The facts are the same as in *Example 1*, except that your total liabilities immediately before the cancellation were $10,000 and the FMV of the total assets immediately before the cancellation was $7,000. In this case, you are insolvent to the

extent of $3,000 ($10,000 total liabilities minus $7,000 FMV of the total assets) immediately before the cancellation. Because the amount of the canceled debt was more than the amount by which you were insolvent immediately before the cancellation, you can exclude only $3,000 of the $5,000 canceled debt from income under the insolvency exclusion.

You check the box on line 1b of Form 982 and include $3,000 on line 2. Also, you complete Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. Additionally, you must include $2,000 of canceled debt on Schedule 1 (Form 1040), line 8c (unless another exclusion applies).

Example 3—joint debt and separate returns. In 2023, you and your spouse were released from an obligation to pay a debt of $10,000 for which you were jointly and severally liable. None of the exceptions to the general rule that canceled debt is included in

income apply. The debt (originally $12,000) was incurred to finance your purchase of a $9,000 motorcycle and your spouse's purchase of a laptop computer and software for personal use for $3,000. You each received a 2023 Form 1099-C from the bank showing the entire canceled debt of $10,000 in box 2. Based on the use of the loan proceeds, you both agreed that you were responsible for 75% of the debt and your spouse was responsible for the remaining 25%. Therefore, your share of the debt is $7,500 (75% of $10,000) and your spouse's share is $2,500 (25% of $10,000). By completing the Insolvency Worksheet, you determine that, immediately before the cancellation of the debt, you were insolvent to the extent of $5,000 ($15,000 total liabilities minus $10,000 FMV of the total assets). You can exclude $5,000 of the $7,500 canceled debt. Your spouse completes a separate Insolvency Worksheet and determines your spouse was insolvent to the extent of $4,000

($9,000 total liabilities minus $5,000 FMV of the total assets). Your spouse can exclude the entire canceled debt of $2,500.

When completing the separate tax return, you check the box on line 1b of Form 982 and enter $5,000 on line 2. You complete Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. You must include the remaining $2,500 (your $7,500 share of the canceled debt minus the $5,000 extent to which you were insolvent) of canceled debt on Schedule 1 (Form 1040), line 8c (unless another exclusion applies).

When completing the return, your spouse checks the box on line 1b of Form 982 and enters $2,500 on line 2. Your spouse completes Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. Your spouse doesn't include any of the canceled debt on Schedule 1 (Form 1040), line 8c. None of the canceled debt has to be included in income.

Insolvency Worksheet

Keep for Your Records

Date debt was canceled (mm/dd/yy)		
Part I. Total liabilities immediately before the cancellation (don't include the same liability in more than one category)		
	Liabilities (debts)	**Amount Owed Immediately Before the Cancellation**
1.	Credit card debt	$
2.	Mortgage(s) on real property (including first and second mortgages and home equity loans) (mortgage(s) can be on main home, any additional home, or property held for investment or used in a trade or business)	$
3.	Car and other vehicle loans	$
4.	Medical bills owed	$
5.	Student loans	$
6.	Accrued or past-due mortgage interest	$
7.	Accrued or past-due real estate taxes	$
8.	Accrued or past-due utilities (water, gas, electric, etc.)	$
9.	Accrued or past-due childcare costs	$
10.	Federal or state income taxes remaining due (for prior tax years)	$
11.	Judgments	$
12.	Business debts (including those owed as a sole proprietor or partner)	$
13.	Margin debt on stocks and other debt to purchase or secured by investment assets other than real property	$
14.	Other liabilities (debts) not included above	$
15.	**Total liabilities immediately before the cancellation. Add lines 1 through 14.**	$
Part II. Fair market value (FMV) of assets owned immediately before the cancellation (don't include the FMV of the same asset in more than one category)		
	Assets	**FMV Immediately Before the Cancellation**
16.	Cash and bank account balances	$
17.	Real property, including the value of land (can be main home, any additional home, or property held for investment or used in a trade or business)	$
18.	Cars and other vehicles	$
19.	Computers	$
20.	Household goods and furnishings (for example, appliances, electronics, furniture, etc.)	$
21.	Tools	$
22.	Jewelry	$
23.	Clothing	$
24.	Books	$
25.	Stocks and bonds	$
26.	Investments in coins, stamps, paintings, or other collectibles	$
27.	Firearms, sports, photographic, and other hobby equipment	$
28.	Interest in retirement accounts (IRA accounts, 401(k) accounts, and other retirement accounts)	$
29.	Interest in a pension plan	$
30.	Interest in education accounts	$
31.	Cash value of life insurance	$
32.	Security deposits with landlords, utilities, and others	$
33.	Interests in partnerships	$
34.	Value of investment in a business	$
35.	Other investments (for example, annuity contracts, guaranteed investment contracts, mutual funds, commodity accounts, interests in hedge funds, and options)	$
36.	Other assets not included above	$
37.	**FMV of total assets immediately before the cancellation. Add lines 16 through 36.**	$
Part III. Insolvency		
38.	**Amount of insolvency.** Subtract line 37 from line 15. If zero or less, you aren't insolvent.	$

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Qualified Farm Indebtedness

You can exclude canceled farm debt from income on your 2023 return if all of the following apply.

- The debt was incurred directly in connection with your operation of the trade or business of farming.
- 50% or more of your total gross receipts for 2020, 2021, and 2022 were from the trade or business of farming.
- The cancellation was made by a qualified person. A qualified person is an individual, organization, partnership, association, corporation, or other person who is actively and regularly engaged in the business of lending money. A qualified person also includes any federal, state, or local government or agency or instrumentality of one of those governments. For example, the U.S. Department of Agriculture is a qualified

person. A qualified person can't be related to you, can't be the person from whom you acquired the property (or a person related to this person), and can't be a person who receives a fee due to your investment in the property (or a person related to this person).

For the definition of the term "related person," see *Related persons* under *At-Risk Amounts* in Pub. 925, Passive Activity and At-Risk Rules.

Other exclusions must be applied before the qualified farm indebtedness exclusion. This exclusion doesn't apply to a cancellation of debt in a title 11 bankruptcy case or to the extent you were insolvent immediately before the cancellation. If qualified farm debt is canceled in a title 11 case, you must apply the bankruptcy exclusion rather than the exclusion for canceled qualified farm debt. If you were insolvent immediately before the cancellation

of qualified farm debt, you must apply the insolvency exclusion before applying the exclusion for canceled qualified farm debt.

Exclusion limit. The amount of canceled qualified farm debt you can exclude from income under this exclusion is limited. It can't be more than the sum of:

1. Your adjusted tax attributes, and
2. The total adjusted basis of qualified property you held at the beginning of 2024.

If you excluded canceled debt under the insolvency exclusion, the adjusted basis of any qualified property and adjusted tax attributes are determined after any reduction of tax attributes required under the insolvency exclusion.

Any canceled qualified farm debt that is more than this limit must be included in your income.

For more information about the basis of property, see Pub. 551.

Adjusted tax attributes. Adjusted tax attributes means the sum of the following items.

1. Any net operating loss (NOL) for 2023 and any NOL carryover to 2023.
2. Any net capital loss for 2023 and any capital loss carryover to 2023.
3. Any passive activity loss carryover from 2023.
4. Three times the sum of any:
    a. General business credit carryover to or from 2023,
    b. Minimum tax credit available as of the beginning of 2024,
    c. Foreign tax credit carryover to or from 2023, and

d. Passive activity credit carryover from 2023.

Qualified property. This is any property you use or hold for use in your trade or business or for the production of income.

How to report the qualified farm indebtedness exclusion. To show that all or part of your canceled debt is excluded from income because it is qualified farm debt, check the box on line 1c of Form 982 and attach it to your Form 1040 or 1040-SR. On line 2 of Form 982, include the amount of the qualified farm debt canceled, but not more than the exclusion limit (explained earlier). You must also reduce your tax attributes in Part II of Form 982, as explained under *Reduction of Tax Attributes*, later.

Example 1—only qualified farm indebtedness exclusion applies. In 2023, you were released from an obligation to pay a $10,000 debt that was incurred directly in connection with the trade or business of

farming. You received a Form 1099-C from the qualified lender showing discharged debt of $10,000 in box 2. For 2020, 2021, and 2022 tax years, at least 50% of your total gross receipts were from the trade or business of farming. Your adjusted tax attributes are $5,000 and you have $3,000 total adjusted basis in qualified property at the beginning of 2024. You had no other debt canceled during 2023 and no other exception or exclusion relating to canceled debt income applies.

You can exclude $8,000 ($5,000 of adjusted tax attributes plus $3,000 total adjusted basis in qualified property at the beginning of 2024) of the $10,000 canceled debt from income. You check the box on line 1c of Form 982 and enter $8,000 on line 2. Also, you complete Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. The remaining $2,000 of canceled

qualified farm debt is included in your income on Schedule F (Form 1040), line 8.

Example 2—both insolvency and qualified farm indebtedness exclusions apply. On March 2, 2023, you were released from an obligation to pay a $10,000 business credit card debt that was used directly in connection with a farming business. For 2020, 2021, and 2022 tax years, at least 50% of your total gross receipts were from the trade or business of farming. You received a 2023 Form 1099-C from the qualified lender showing discharged debt of $10,000 in box 2. The FMV of your total assets on March 2, 2023 (immediately before the cancellation of the credit card debt), was $7,000 and your total liabilities at that time were $11,000. Your adjusted tax attributes (a 2023 NOL) are $7,000 and you have $4,000 total adjusted basis in qualified property at the beginning of 2024.

You qualify to exclude $4,000 of the canceled debt under the insolvency exclusion because you are insolvent to the extent of $4,000 immediately before the cancellation ($11,000 total liabilities minus $7,000 FMV of total assets). You must reduce the tax attributes under the insolvency rules before applying the rules for qualified farm debt.

You also qualify to exclude the remaining $6,000 of canceled qualified farm debt. The limit on your exclusion from income of canceled qualified farm debt is $7,000, the sum of:

1. Your adjusted tax attributes of $3,000 (the $7,000 NOL minus the $4,000 reduction of tax attributes required because of the $4,000 exclusion of canceled debt under the insolvency exclusion), and
2. Your total adjusted basis of $4,000 in qualified property held at the beginning of 2024.

You check the boxes on lines 1b and 1c of Form 982 and enter $10,000 on line 2. You complete Part II to reduce the tax attributes, as explained under *Reduction of Tax Attributes*, later. You don’t include any of the canceled debt in income.

Example 3—no qualified farm indebtedness exclusion when insolvent to the extent of canceled debt. The facts are the same as in *Example 2*, except that immediately before the cancellation, you were insolvent to the extent of the full $10,000 canceled debt. Because the exclusion for qualified farm debt doesn't apply to the extent that your insolvency (immediately before the cancellation) was equal to the full amount of the canceled debt, you check only the box on line 1b of Form 982 and enter $10,000 on line 2. You complete Part II to reduce the tax attributes based on the insolvency exclusion, as explained under

Reduction of Tax Attributes, later. You don't include any of the canceled debt in income.

Qualified Real Property Business Indebtedness

You can elect to exclude canceled qualified real property business indebtedness from income. Qualified real property business indebtedness is debt (other than qualified farm debt) that meets all of the following conditions.

1. It was incurred or assumed in connection with real property used in a trade or business. Real property used in a trade or business doesn't include real property developed and held primarily for sale to customers in the ordinary course of business.
2. It is secured by that real property. As long as certain other requirements are met, indebtedness that is secured by 100% of the ownership interest in a

disregarded entity holding real property will be treated as indebtedness that is secured by real property. For more information, and for the requirements that must be met, see Revenue Procedure 2014-20, available at *IRS.gov/irb/2014-9_IRB#RP-2014-20.*

3. It was incurred or assumed:

   a. Before 1993; or

   b. After 1992, if the debt is either (i) qualified acquisition indebtedness (defined next), or (ii) debt incurred to refinance qualified real property business debt incurred or assumed before 1993 (but only to the extent the amount of such debt doesn't exceed the amount of debt being refinanced).

4. It is debt to which you elect to apply these rules.

TIP *Residential rental property generally qualifies as real property used in a trade or business unless you also use the dwelling as a home. For more information, see* Dwelling Unit Used as a Home *in Pub. 527.*

Definition of qualified acquisition indebtedness. Qualified acquisition indebtedness is:

- Debt incurred or assumed to acquire, construct, reconstruct, or substantially improve real property that is used in a trade or business and secures the debt; or
- Debt resulting from the refinancing of qualified acquisition indebtedness, to the extent the amount of the debt doesn't exceed the amount of debt being refinanced.

Other exclusions must be applied before the qualified real property business indebtedness exclusion. This exclusion doesn't apply to a cancellation of debt in a title 11 bankruptcy case or to the extent you were insolvent immediately before the cancellation. If qualified real property business debt is canceled in a title 11 bankruptcy case, you must apply the bankruptcy exclusion rather than the exclusion for canceled qualified real property business debt. If you were insolvent immediately before the cancellation of qualified real property business debt, you must apply the insolvency exclusion before applying the exclusion for canceled qualified real property business debt.

Exclusion limit. The amount of canceled qualified real property business debt you can exclude from income under this exclusion has two limits. The amount you can exclude can't be more than either:

1. The excess (if any) of the outstanding principal amount of the qualified real property business debt (immediately before the cancellation) over the FMV (immediately before the cancellation) of the business real property securing the debt, or

2. The total adjusted basis of depreciable real property you held immediately before the cancellation of the qualified real property business debt (other than depreciable real property acquired in contemplation of the cancellation).

Note. When figuring the first limit in (1) above, reduce the FMV of the business real property securing the debt (immediately before the cancellation) by the outstanding principal amount of any other qualified real property business debt secured by that property (immediately before the cancellation). When figuring the second

(overall) limit in (2) above, use the adjusted basis of the depreciable real property after any reductions in basis required because of the exclusion of debt canceled under the bankruptcy, insolvency, or farm debt provisions described in this publication or because of other basis adjustments that may apply to that depreciable property.

For more information about the basis of property, see Pub. 551.

How to elect the qualified real property business debt exclusion. You must make an election to exclude canceled qualified real property business debt from gross income. The election must be made on a timely filed federal income tax return (including extensions) for 2023 and can be revoked only with IRS consent. The election is made by completing Form 982 in accordance with its instructions. Attach Form 982 to your federal income tax return for 2023 and check the box on line 1d. Include the amount of canceled

qualified real property business debt (but not more than the amount of the exclusion limit, explained earlier) on line 2 of Form 982. You must also reduce your tax attributes in Part II of Form 982, as explained under *Reduction of Tax Attributes*, later.

If you timely filed your tax return without making this election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Enter "Filed pursuant to section 301.9100-2" on the amended return and file it at the same place you filed the original return.

Example—full qualified real property business indebtedness exclusion. In 2017, you bought a retail store for use in a business that you operated as a sole proprietorship. You made a $20,000 down payment and financed the remaining $200,000 of the purchase price with a bank loan. The bank loan was a recourse loan and

was secured by the property. You used the property in the business continuously since it was purchased. You had no other debt secured by that depreciable real property. In addition to the retail store, you owned depreciable equipment and furniture with an adjusted basis of $50,000.

Your business encountered financial difficulties in 2023. On September 21, 2023, the bank financing the retail store loan entered into a workout agreement with you under which it canceled $20,000 of the debt. Immediately before the cancellation, the outstanding principal balance on the retail store loan was $185,000, the FMV of the store was $165,000, and the adjusted basis was $210,000 ($220,000 cost minus $10,000 accumulated depreciation).

The bank sent you a 2023 Form 1099-C showing discharged debt of $20,000 in box 2. You had no tax attributes other than the basis to reduce and you didn’t qualify for any

exception or exclusion other than the qualified real property business debt exclusion.

You elect to apply the qualified real property business debt exclusion to the canceled debt. The amount of canceled qualified real property business debt that you can exclude from income is limited. The amount you can exclude can't be more than either:

1. $20,000 (the excess of the $185,000 outstanding principal amount of your qualified real property business debt immediately before the cancellation over the $165,000 FMV of the business real property securing the debt), or
2. $210,000 (the total adjusted basis of the depreciable real property you held immediately before the cancellation).

Thus, you can exclude the entire $20,000 of canceled qualified real property business debt from income. You check the box on line 1d of

Form 982 and enter $20,000 on line 2. You must also use line 4 of Form 982 to reduce the basis in depreciable real property by the $20,000 of canceled qualified real property business debt excluded from income, as explained under *Reduction of Tax Attributes*, later.

Qualified Principal Residence Indebtedness

Qualified principal residence indebtedness is any mortgage you took out to buy, build, or substantially improve your main home. It must also be secured by your main home. Qualified principal residence indebtedness also includes any debt secured by your main home that you used to refinance a mortgage you took out to buy, build, or substantially improve your main home, but only up to the amount of the old mortgage principal just before the refinancing.

Example 1—qualified principal residence indebtedness amount after refinance. In 2022, you bought a main home for $315,000. You took out a $300,000 mortgage loan to buy the home and made a down payment of $15,000. The loan was secured by the home. Later that year, you took out a second mortgage loan in the amount of $50,000 that was used to add a garage to the home.

In 2023, when the outstanding principal of the first and second mortgage loans was $325,000, you refinanced the two loans into one loan in the amount of $400,000. The FMV of the home at the time of the refinancing was $430,000. You used the additional $75,000 debt proceeds ($400,000 new mortgage loan minus $325,000 outstanding principal balances of the first and second mortgage loans immediately before the refinancing) to pay off personal credit cards and to pay college tuition for your daughter.

After the refinancing, your qualified principal residence indebtedness is $325,000 because the $400,000 debt resulting from the refinancing is qualified principal residence indebtedness only to the extent it isn't more than the old mortgage principal just before the refinancing (the $325,000 of outstanding principal on your first and second mortgages, which both qualified as principal residence indebtedness).

Example 2—refinancing home equity loan used for other purposes. In 2022, you acquired a main home for $200,000, subject to a mortgage of $175,000. Later that year, you took out a home equity loan for $10,000, secured by the main home, which you used to pay off personal credit cards.

In 2023, when the outstanding principal on the mortgage was $170,000, and the outstanding principal on the home equity loan was $9,000, you refinanced the two loans into one loan in the amount of $200,000. The FMV

of the home at the time of refinancing was $210,000. You used the additional $21,000 ($200,000 new mortgage loan minus $179,000 outstanding principal balances on the mortgage and home equity loan) to cover medical expenses.

After refinancing, your qualified principal residence indebtedness is $170,000 because the debt resulting from the refinancing is qualified principal residence indebtedness only to the extent it refinances debt that had been secured by the main home and was used to buy, build, or substantially improve the main home.

Main home. Your main home is the one in which you live most of the time. You can have only one main home at any one time.