Publication 4681

Canceled Debts, Foreclosures, Repossessions, and Abandonments

(for Individuals)

For use in preparing

2023 Returns

Volume 2 of 2

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Other exclusions must be applied before the qualified principal residence indebtedness exclusion. This exclusion doesn't apply to a cancellation of debt in a title 11 bankruptcy case. If qualified principal residence indebtedness is canceled in a title 11 bankruptcy case, you must apply the bankruptcy exclusion rather than the exclusion for qualified principal residence indebtedness. If you were insolvent immediately before the cancellation, you can elect to apply the insolvency exclusion (as explained under *Insolvency*, earlier) instead of applying the qualified principal residence indebtedness exclusion. To do this, check the box on line 1b of Form 982 instead of the box on line 1e.

Exclusion limit. The maximum amount you can treat as qualified principal residence indebtedness is $750,000 ($375,000 if married filing separately). You can't exclude canceled qualified principal residence

indebtedness from income if the cancellation was for services performed for the lender or on account of any other factor not directly related to a decline in the value of your home or to your financial condition.

Ordering rule. If only a part of a loan is qualified principal residence indebtedness, the exclusion applies only to the extent the amount canceled is more than the amount of the loan (immediately before the cancellation) that isn't qualified principal residence indebtedness. The remaining part of the loan may qualify for another exclusion.

Example 3—ordering rule on cancellation of nonqualified principal residence debt. You incurred recourse debt of $800,000 when you bought a main home for $880,000. When the FMV of the property was $1 million, you refinanced the debt for $850,000. At the time of the refinancing, the principal balance of the original mortgage loan was $740,000. You used the $110,000 obtained from the

refinancing ($850,000 minus $740,000) to pay off credit cards and to buy a new car.

About 2 years after the refinancing, you lost your job and were unable to get another job paying a comparable salary. Your home had declined in value to between $600,000 and $650,000. Based on your circumstances, the lender agreed to allow a short sale of the property for $620,000 and to cancel the remaining $115,000 of the outstanding $735,000 debt.

Under the ordering rule, you can exclude only $5,000 of the canceled debt from income under the exclusion for canceled qualified principal residence indebtedness ($115,000 canceled debt minus the $110,000 amount of the debt that wasn't qualified principal residence indebtedness). You must include the remaining $110,000 of canceled debt in income on Schedule 1 (Form 1040), line 8c (unless another exclusion applies).

How to report the qualified principal residence indebtedness exclusion. To show that all or part of your canceled debt is excluded from income because it is qualified principal residence indebtedness, attach Form 982 to your federal income tax return and check the box on line 1e. On line 2 of Form 982, include the amount of canceled qualified principal residence indebtedness, but not more than the amount of the exclusion limit (explained earlier). If you continue to own your home after a cancellation of qualified principal residence indebtedness, you must reduce your basis in the home, as explained under *Reduction of Tax Attributes* next.

Reduction of Tax Attributes

If you exclude canceled debt from income, you must reduce certain tax attributes (but not below zero) by the amount excluded. Use Part II of Form 982 to reduce your tax attributes. The order in which the tax attributes are reduced depends on the reason

the canceled debt was excluded from income. If the total amount of canceled debt excluded from income (line 2 of Form 982) was more than your total tax attributes, the total reduction of tax attributes in Part II of Form 982 will be less than the amount on line 2.

Qualified Principal Residence Indebtedness

If you exclude canceled qualified principal residence indebtedness from income and you continue to own the home after the cancellation, you must reduce the basis of the home (but not below zero) by the amount of the canceled qualified principal residence indebtedness excluded from income. Enter the amount of the basis reduction on line 10b of Form 982.

For more details on determining the basis of your main home, see Pub. 523.

Bankruptcy and Insolvency

No tax attributes other than basis of personal-use property. If the canceled debt you are excluding isn't excluded as qualified principal residence indebtedness and you have no tax attributes other than the adjusted basis of personal-use property (see the list of seven tax attributes, later), you must reduce the basis of the personal-use property you held at the beginning of 2024 (in proportion to adjusted basis). Personal-use property is any property that isn't used in your trade or business or held for investment (such as your home, home furnishings, and car). Include on line 10a of Form 982 the smallest of:

1. The basis of your personal-use property held at the beginning of 2024,
2. The amount of canceled nonbusiness debt (other than qualified principal

residence indebtedness) that you are excluding from income on line 2 of Form 982, or

3. The excess of the total basis of the property and the amount of money you held immediately after the cancellation over your total liabilities immediately after the cancellation.

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

Example. In 2022, you bought a car for personal use. The cost of the car was $12,000. You put down $2,000 and took out a loan of $10,000 to buy the car. The loan was a recourse loan, meaning that you were personally liable for the full amount of the debt.

On December 7, 2023, when the balance of the loan was $8,500, the lender repossessed and sold the car because you stopped making payments on the loan. The FMV of the car

was $7,000 at the time the lender repossessed and sold it. The lender applied the $7,000 it received on the sale of the car against your loan and forgave the remaining loan balance of $1,500 ($8,500 outstanding balance immediately before the repossession minus the $7,000 FMV of the car).

Your only other assets at the time of the cancellation are the furniture in your apartment, which has a basis of $5,000 and an FMV of $3,000; jewelry with a basis of $500 and an FMV of $1,000; and a $600 balance in a savings account. Thus, the FMV of your total assets immediately before the cancellation was $11,600 ($7,000 car plus $3,000 furniture plus $1,000 jewelry plus $600 savings). You also had an outstanding student loan balance of $6,000 immediately before the cancellation, bringing the total liabilities at that time to $14,500 ($8,500 balance on car loan plus $6,000 student loan balance). Other than the car, which was

repossessed, you held all of these assets at the beginning of 2024. The FMV and basis of the assets remained the same at the beginning of 2024.

You received a 2023 Form 1099-C showing $1,500 in box 2 (amount of debt that was canceled) and $7,000 in box 7 (FMV of the property). You can exclude all $1,500 of canceled debt from income because at the time of the cancellation, you were insolvent to the extent of $2,900 ($14,500 of total liabilities immediately before the cancellation minus $11,600 FMV of total assets at that time).

You check box 1b on Form 982 and enter $1,500 on line 2. You enter $100 on line 10a, the smallest of:

1. The $5,500 basis of your personal-use property held at the beginning of 2024 ($5,000 furniture plus $500 jewelry),

2. The $1,500 nonbusiness debt you are excluding from income on line 2 of Form 982, or

3. The $100 excess of the total basis of the property and the amount of money you held immediately after the cancellation over the total liabilities at that time ($5,500 basis of property held immediately after the cancellation plus $600 savings minus $6,000 student loan).

You must reduce (by one dollar for each dollar of excluded canceled debt) the basis in each item of property held at the beginning of 2024 in proportion to the total adjusted basis in all the property. The total reduction, however, can't be more than (3) above—the $100 excess of the total adjusted basis and the money held after the cancellation over the total liabilities after the cancellation. See the basis attribute under *All other tax attributes* next.

Thus, you reduce the basis as follows.

1. The furniture's basis is 91% of the total adjusted basis ($5,000 divided by $5,500), so you reduce it by $91 (the $100 excess in (3) multiplied by 0.91).
2. The jewelry's basis is 9% of the total adjusted basis ($500 divided by $5,500), so you reduce it by $9 (the $100 excess in (3) multiplied by 0.09).

All other tax attributes. If the canceled debt is excluded by reason of the bankruptcy or insolvency exclusion, you must use the excluded debt to reduce the following tax attributes (but not below zero) in the order listed unless you elect to reduce the basis of depreciable property first, as explained later. Reduce your tax attributes after you figure your income tax liability for 2023.

1. ***Net operating loss (NOL).*** First reduce any 2023 NOL and then reduce any NOL carryover to 2023 (after

taking into account any amount used to reduce 2023 taxable income) in the order of the tax years from which the carryovers arose, starting with the earliest year. Reduce the NOL or carryover by one dollar for each dollar of excluded canceled debt.

2. ***General business credit carryover.*** Reduce the credit carryover to or from 2023. Reduce the credit carryovers to 2023 in the order in which they are taken into account for 2023. For more information on the credit ordering rules for 2023, see the Instructions for Form 3800. Reduce the carryover by $33^1/3$ cents for each dollar of excluded canceled debt.

3. ***Minimum tax credit.*** Reduce the minimum tax credit available at the beginning of 2024. Reduce the credit by $33^1/3$ cents for each dollar of excluded canceled debt.

4. ***Net capital loss and capital loss carryovers.*** First reduce any 2023 net capital loss and then any capital loss carryover to 2023 (after taking into account any amount used to reduce 2023 taxable income) in the order of the tax years from which the carryovers arose, starting with the earliest year. Reduce the net capital loss or carryover by one dollar for each dollar of excluded canceled debt.

5. ***Basis.*** Reduce the basis of the property you hold at the beginning of 2024 in the following order (and, within each category, in proportion to adjusted basis).

    a. Real property used in your trade or business or held for investment (other than real property held for sale to customers in the ordinary course

of business) if it secured the canceled debt.

b. Personal property used in your trade or business or held for investment (other than inventory and accounts and notes receivable) if it secured the canceled debt.

c. Any other property used in your trade or business or held for investment (other than inventory, accounts receivable, notes receivable, and real property held for sale to customers in the ordinary course of business).

d. Inventory, accounts receivable, notes receivable, and real property held primarily for sale to customers in the ordinary course of business.

e. Personal-use property (property not used in your trade or business nor held for investment).

Reduce the basis by one dollar for each dollar of excluded canceled debt. However, the reduction can't be more than the excess of the total basis of the property and the amount of money you held immediately after the debt cancellation over your total liabilities immediately after the cancellation.

For allocation rules that apply to basis reductions for multiple canceled debts, see Regulations section 1.1017-1(b)(2). Also see *Election to reduce the basis of depreciable property before reducing other tax attributes*, later.

6. ***Passive activity loss and credit carryovers.*** Reduce the passive activity loss and credit carryovers from 2023. Reduce the loss carryover by one dollar for each dollar of excluded

canceled debt. Reduce the credit carryover by $33^1/3$ cents for each dollar of excluded canceled debt.

7. ***Foreign tax credit.*** Reduce the credit carryover to or from 2023. Reduce the credit carryovers to 2023 in the order in which they are taken into account for 2023. Reduce the carryover by $33^1/3$ cents for each dollar of excluded canceled debt.

Election to reduce the basis of depreciable property before reducing other tax attributes. You can elect to reduce the basis of depreciable property you held at the beginning of 2024 before reducing other tax attributes. You can reduce the basis of this property by all or part of the canceled debt. Basis of property is reduced in the following order.

1. Depreciable real property used in your trade or business or held for

investment that secured the canceled debt.

2. Depreciable personal property used in your trade or business or held for investment that secured the canceled debt.

3. Other depreciable property used in your trade or business or held for investment.

4. Real property held primarily for sale to customers if you elect to treat it as if it were depreciable property on Form 982.

Basis reduction is limited to the total adjusted basis of all your depreciable property. Depreciable property for this purpose means any property subject to depreciation or amortization, but only if a reduction of basis will reduce the depreciation or amortization otherwise allowable for the period immediately following the basis reduction. If

the amount of canceled debt excluded from income is more than the total basis in depreciable property, you must use the excess to reduce the other tax attributes in the order described earlier under *All other tax attributes.* In figuring the limit on the basis reduction in (5), *Basis,* use the remaining adjusted basis of your properties after making this election. See Form 982 for information on how to make this election. The election can be revoked only with IRS consent.

Recapture of basis reductions. If you reduce the basis of property under these provisions and later sell or otherwise dispose of the property at a gain, the part of the gain due to this basis reduction is taxable as ordinary income under the depreciation recapture provisions. Treat any property that isn't section 1245 or section 1250 property as section 1245 property. For section 1250 property, determine the depreciation adjustments that would have resulted under

the straight line method as if there were no basis reduction for debt cancellation. See Pub. 544, or Pub. 225, for more details on sections 1245 and 1250 property and the recapture of gain as ordinary income.

Qualified Farm Indebtedness

If you exclude canceled debt from income under both the insolvency exclusion and the exclusion for qualified farm indebtedness, you must first reduce your tax attributes by the amount excluded under the insolvency exclusion. Then, reduce your remaining tax attributes (but not below zero) by the amount of canceled debt that qualifies for the farm debt exclusion.

In most cases, when reducing your tax attributes for canceled qualified farm indebtedness excluded from income, reduce them in the same order explained under *Bankruptcy and Insolvency,* earlier. However, don't follow the rules in item (5), *Basis.*

Instead, reduce only the basis of qualified property. Qualified property is any property you use or hold for use in your trade or business or for the production of income. Reduce the basis of qualified property in the following order.

1. Depreciable qualified property. You can elect on Form 982 to treat real property held primarily for sale to customers as if it were depreciable property.
2. Land that is qualified property and is used or held for use in your farming business.
3. Other qualified property.

Qualified Real Property Business Indebtedness

If you make an election to exclude canceled qualified real property business debt from income, you must reduce the basis of your

depreciable real property (but not below zero) by the

amount of canceled qualified real property business debt excluded from income. The basis reduction is made at the beginning of 2024. However, if you dispose of your depreciable real property before the beginning of 2024, you must reduce its basis (but not below zero) immediately before the disposition. Enter the amount of the basis reduction on line 4 of Form 982.

Example 1—qualified real property business indebtedness and insolvency with reduction in basis. In 2018, you bought a retail store for use in a business 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

and 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 tax attributes included the basis of depreciable property, an NOL, and a capital loss carryover to 2023.

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 principal amount of the debt. Immediately before the bank entered into the workout agreement, you were insolvent to the extent of $12,000. At that time, 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 canceled debt of $20,000 in box 2.

You must apply the insolvency exclusion before applying the exclusion for canceled qualified real property business indebtedness. Under the insolvency exclusion rules, you can exclude $12,000 of the canceled debt from income. You elect to reduce the basis of depreciable property before reducing other tax attributes. Under that election, you must first reduce the basis in the depreciable real property used in the trade or business that secured the canceled debt. After the basis reduction, the adjusted basis in that property is $198,000 ($210,000 adjusted basis before entering into the workout agreement minus $12,000 of canceled debt excluded from income under the insolvency exclusion).

You may be able to exclude the remaining $8,000 of canceled debt from income under the exclusion for qualified real property business indebtedness, if you elect to apply it.

The amount you can exclude is limited. It can’t be more than:

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 (immediately before the cancellation) of the qualified real property, which secured the debt), or

2. $198,000 (the total adjusted basis of depreciable real property you held immediately before the cancellation determined after reductions for accumulated depreciation and canceled debt excluded under the insolvency exclusion ($220,000 minus $10,000 minus $12,000)).

Since both limits are more than the $8,000 of remaining canceled debt ($20,000 minus $12,000), you can exclude $8,000 under the

qualified real property business indebtedness exclusion.

You check the boxes on lines 1b and 1d of Form 982. You complete Part II of Form 982 to reduce the basis in the depreciable real property by $20,000, the amount of the canceled debt excluded from income. You enter $8,000 on line 4 and $12,000 on line 5.

Example 2—qualified real property business indebtedness with insolvency and reduction in NOL. You own depreciable real property used in a retail business. Your adjusted basis in the property is $145,000. The FMV of the property is $120,000. The property is subject to $134,000 of recourse debt, which is secured by the property. You had no other debt secured by that depreciable real property. You also had a $15,000 NOL in 2023.

During 2023, you entered into a workout agreement with the lender under which the lender canceled $14,000 of the debt on the

real property used in the business. Immediately before the cancellation, you were insolvent to the extent of $10,000. You exclude $10,000 of the canceled debt from income under the insolvency exclusion. As a result of that exclusion, you reduce the NOL by $10,000.

You may be able to exclude the remaining $4,000 of canceled debt from income under the qualified real property business indebtedness exclusion, if you elect to apply it. The amount you can exclude is limited. It can't be more than:

1. $14,000 (the excess of the $134,000 outstanding principal amount of your qualified real property business debt (immediately before the cancellation) over the $120,000 FMV (immediately before the cancellation) of that qualified real property, which secured the debt), or

2. $145,000 (the total adjusted basis of depreciable real property held immediately before the cancellation of debt).

Since both limits ($14,000 and $145,000) are more than the remaining $4,000 of canceled debt, you can also exclude the remaining $4,000 of canceled debt.

You check the boxes on lines 1b and 1d of Form 982 and enter $14,000 on line 2. You complete Part II of Form 982 to reduce the basis of depreciable real property and the 2023 NOL by entering $4,000 on line 4 and $10,000 on line 6. None of the canceled debt is included in income.

2.

Foreclosures and Repossessions

If you don't make payments you owe on a loan secured by property, the lender may foreclose on the loan or repossess the property. The foreclosure or repossession is treated as a sale from which you may realize gain or loss. This is true even if you voluntarily return the property to the lender. If the outstanding loan balance was more than the FMV of the property and the lender cancels all or part of the remaining loan balance, you may also realize ordinary income from the cancellation of debt. You must report this income on your return unless certain exceptions or exclusions apply. See chapter 1 for more details.

Borrower's gain or loss. You figure and report gain or loss from a foreclosure or repossession in the same way as gain or loss from a sale. The gain is the difference between the amount realized and your adjusted basis in the transferred property (amount realized minus adjusted basis). The loss is the difference between your adjusted basis in the transferred property and the amount realized (adjusted basis minus amount realized). For more information on figuring gain or loss from the sale of property, see *Gain or Loss From Sales and Exchanges* in Pub. 544.

You can use Table 1-1 to figure your ordinary income from the cancellation of debt and your gain or loss from a foreclosure or repossession.

Amount realized and ordinary income on a recourse debt. If you are personally liable for the debt, the amount realized on the

foreclosure or repossession includes the smaller of:

1. The outstanding debt immediately before the transfer reduced by any amount for which you remain personally liable immediately after the transfer, or
2. The FMV of the transferred property.

The amount realized also includes any proceeds you received from the foreclosure sale. If the FMV of the transferred property is less than the total outstanding debt immediately before the transfer reduced by any amount for which you remain personally liable immediately after the transfer, the difference is ordinary income from the cancellation of debt. You must report this income on your return unless certain exceptions or exclusions apply. See chapter 1 for more details.

Table 1-1. **Worksheet for Foreclosures and Repossessions**

Keep for Your Records

Part 1. Complete Part 1 only if you were personally liable for the debt (even if none of the debt was canceled). Otherwise, go to Part 2.	
1. Enter the amount of outstanding debt immediately before the transfer of property reduced by any amount for which you remain personally liable immediately after the transfer of property	_____
2. Enter the fair market value of the transferred property	_____
3. Ordinary income from the cancellation of debt upon foreclosure or repossession.* Subtract line 2 from line 1. If less than zero, enter zero. Next, go to Part 2	_____
Part 2. Gain or loss from foreclosure or repossession.	
4. Enter the **smaller** of line 1 or line 2. If you didn't complete Part 1 (because you weren't personally liable for the debt), enter the amount of outstanding debt immediately before the transfer of property	_____
5. Enter any proceeds you received from the foreclosure sale	_____
6. Add line 4 and line 5	_____
7. Enter the adjusted basis of the transferred property	_____
8. Gain or loss from foreclosure or repossession. Subtract line 7 from line 6	_____

* The income may not be taxable. See chapter 1 for more details.

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Example 1. In 2022, you paid $200,000 for a home. You made a $15,000 down payment and borrowed the remaining $185,000 from a bank. You are personally liable for the mortgage loan and the house secures the loan. In 2023, the bank foreclosed on the mortgage because you stopped making payments. When the bank foreclosed the mortgage, the balance due was $180,000, the FMV of the house was $170,000, and your adjusted basis was $175,000 due to a casualty loss that was deducted. At the time of the foreclosure, the bank forgave $2,000 of the $10,000 debt in excess of the FMV ($180,000 minus $170,000). You remained personally liable for the $8,000 balance.

In this case, you have ordinary income from the cancellation of debt in the amount of $2,000. The $2,000 income from the cancellation of debt is figured by subtracting the $170,000 FMV of the house from the $172,000 difference between the total

outstanding debt immediately before the transfer of property and the amount for which you remain personally liable immediately after the transfer ($180,000 minus $8,000). You are able to exclude the $2,000 of canceled debt from income under the qualified principal residence indebtedness rules, discussed earlier.

You must also determine the gain or loss from the foreclosure. In this case, the amount realized is $170,000. This is the smaller of:

1. $172,000 (the $180,000 of outstanding debt immediately before the transfer minus $8,000 for which you remain personally liable immediately after the transfer), or
2. $170,000 (the FMV of the house).

You figure the gain or loss on the foreclosure by comparing the $170,000 amount realized with the $175,000 adjusted basis. You have a $5,000 nondeductible loss.

Example 2. You bought a new car for $15,000. You made a $2,000 down payment and borrowed the remaining $13,000 from the dealer's credit company. You are personally liable for the loan (recourse debt) and the car is pledged as security for the loan. On August 3, 2023, the credit company repossessed the car because you stopped making loan payments. The balance due after taking into account the payments you made was $10,000. The FMV of the car when it was repossessed was $9,000. On November 16, 2023, the credit company forgave the remaining $1,000 balance on the loan due to insufficient assets.

In this case, the amount you realize is $9,000. This is the smaller of:

1. $9,000 (the $10,000 outstanding debt immediately before the repossession minus the $1,000 for which you remain personally liable immediately after the repossession), or

2. $9,000 (the FMV of the car).

You figure the gain or loss on the repossession by comparing the $9,000 amount realized with the $15,000 adjusted basis. You have a $6,000 nondeductible loss. After the cancellation of the remaining balance on the loan in November, you also have ordinary income from cancellation of debt in the amount of $1,000 (the remaining balance on the $10,000 loan after the $9,000 amount satisfied by the FMV of the repossessed car). You must report the $1,000 on the return unless one of the exceptions or exclusions described in chapter 1 applies.

Amount realized on a nonrecourse debt. If you aren't personally liable for repaying the debt secured by the transferred property, the amount you realize includes the full amount of the outstanding debt immediately before the transfer. This is true even if the FMV of the property is less than the outstanding debt immediately before the transfer.

Example 1. You paid $200,000 for a home. You made a $15,000 down payment and borrowed the remaining $185,000 from a bank. You aren't personally liable for the loan, but the loan was secured by a mortgage on the house.

The bank foreclosed on the mortgage because you stopped making payments. When the bank foreclosed on the mortgage, the balance due was $180,000, the FMV of the house was $170,000, and your adjusted basis was $175,000 due to a casualty loss that was deducted.

The amount you realized on the foreclosure is $180,000, the outstanding debt immediately before the foreclosure. You figure the gain or loss by comparing the $180,000 amount realized with the $175,000 adjusted basis. You have a $5,000 realized gain. See Pub. 523, to figure and report any taxable amount.

Example 2. You bought a new car for $15,000. You made a $2,000 down payment and borrowed the remaining $13,000 from the dealer's credit company. You aren’t personally liable for the loan (nonrecourse), but pledged the new car as security for the loan.

On August 3, 2023, the credit company repossessed the car because you stopped making loan payments. The balance due after taking into account the payments you made was $10,000. The FMV of the car when it was repossessed was $9,000.

The amount you realized on the repossession is $10,000. That is the outstanding amount of debt immediately before the repossession, even though the FMV of the car is less than $10,000. You figure the gain or loss on the repossession by comparing the $10,000 amount realized with the $15,000 adjusted basis. You have a $5,000 nondeductible loss.

Forms 1099-A and 1099-C. A lender who acquires an interest in your property in a foreclosure or repossession should send you Form 1099-A, Acquisition or Abandonment of Secured Property, showing information you need to figure your gain or loss. However, if the lender also cancels part of your debt and must file Form 1099-C, the lender can include the information about the foreclosure or repossession on that form instead of on Form 1099-A. The lender must file Form 1099-C and send you a copy if the amount of debt canceled is $600 or more and the lender is a financial institution, credit union, federal government agency, or other applicable entity, as discussed earlier in chapter 1. For foreclosures or repossessions occurring in 2023, these forms should be sent to you by January 31, 2024.

3.

Abandonments

You abandon property when you voluntarily and permanently give up possession and use of the property with the intention of ending your ownership but without passing it on to anyone else. Whether an abandonment has occurred is determined in light of all the facts and circumstances. You must both show an intention to abandon the property and affirmatively act to abandon the property.

A voluntary conveyance of the property in lieu of foreclosure isn't an abandonment and is treated as the exchange of property to satisfy a debt. For more information, see *Sales and Exchanges* in Pub. 544.

The tax consequences of abandonment of property that secures a debt depend on whether you were personally liable for the

debt (recourse debt) or weren’t personally liable for the debt (nonrecourse debt).

See Pub. 544 if you abandoned property that didn't secure debt. This publication only discusses the tax consequences of abandoning property that secured a debt.

Abandonment of property securing recourse debt. In most cases, if you abandon property that secures debt for which you are personally liable (recourse debt), you don't have gain or loss until the later foreclosure is completed. For details on figuring gain or loss on the foreclosure, see chapter 2.

Example 1—abandonment of personal-use property securing recourse debt. In 2019, you purchased a home for $200,000. You borrowed the entire purchase price, for which you were personally liable, and gave the bank a mortgage on the home. In 2023, you lost your job and was unable to continue

making the mortgage loan payments. Because your mortgage loan balance was $185,000 and the FMV of the home was only $150,000, you decided to abandon the home by permanently moving out on August 1, 2023. Because you were personally liable for the debt and the bank didn't complete a foreclosure of the property in 2023, you have neither gain nor loss in tax year 2023 from abandoning the home. If the bank sells the house at a foreclosure sale in 2024, you will have to figure the gain or nondeductible loss for tax year 2024, as discussed earlier in chapter 2.

Example 2—abandonment of business or investment property securing recourse debt. In 2019, you purchased business property for $200,000. You borrowed the entire purchase price, for which you were personally liable, and gave the lender a security interest in the property. In 2023, you were unable to continue making the loan

payments. Because the loan balance was $185,000 and the FMV of the property was only $150,000, you abandoned the property on August 1, 2023. Because you were personally liable for the debt and the lender didn't complete a foreclosure of the property in 2023, you have neither gain nor loss in tax year 2023 from abandoning the property. If the lender sells the property at a foreclosure sale in 2024, you will have to figure the gain or deductible loss for tax year 2024, as discussed earlier in chapter 2.

Abandonment of property securing nonrecourse debt. If you abandon property that secures debt for which you aren't personally liable (nonrecourse debt), the abandonment is treated as a sale or exchange.

The amount you realize on the abandonment of property that secured nonrecourse debt is the amount of the nonrecourse debt. If the amount you realize is more than your

adjusted basis, then you have a gain. If your adjusted basis is more than the amount you realize, then you have a loss. For more information on how to figure gain and loss, see *Gain or Loss From Sales and Exchanges* in Pub. 544.

Loss from abandonment of business or investment property is deductible as a loss. The character of the loss depends on the character of the property. The amount of deductible capital loss may be limited. For more information, see *Treatment of Capital Losses* in Pub. 544. You can't deduct any loss from abandonment of your home or other property held for personal use.

Example 1—abandonment of personal-use property securing nonrecourse debt. In 2019, you purchased a home for $200,000. You borrowed the entire purchase price, for which you weren’t personally liable, and gave the bank a mortgage on the home. In 2023, you lost your job and was unable to

continue making the mortgage loan payments. Because the mortgage loan balance was $185,000 and the FMV of the home was only $150,000, you decided to abandon the home by permanently moving out on August 1, 2023. Because you weren't personally liable for the debt, the abandonment is treated as a sale or exchange of the home in tax year 2023. Your amount realized is $185,000 and the adjusted basis in the home is $200,000. You have a $15,000 nondeductible loss in tax year 2023. (Had your adjusted basis been less than the amount realized, you would have had a gain that would have to be included in gross income.) The bank sells the house at a foreclosure sale in 2024. You have neither gain nor loss from the foreclosure sale. Because you weren't personally liable for the debt, you also have no cancellation of debt income.

Example 2—abandonment of business or investment property securing nonrecourse debt. In 2019, you purchased business property for $200,000. You borrowed the entire purchase price, for which you weren't personally liable, and gave the lender a security interest in the property. In 2023, you were unable to continue making the loan payments. Because the loan balance was $185,000 and the FMV of the property was only $150,000, you decided to abandon the property on August 3, 2023. Because you weren't personally liable for the debt, the abandonment is treated as a sale or exchange of the property in tax year 2023. Your amount realized is $185,000 and the adjusted basis in the property is $180,000 (as a result of $20,000 of depreciation deductions on the property). You have a $5,000 gain in tax year 2023. (Had your adjusted basis been greater than the amount realized, you would have had a deductible loss.) The lender sells the property at a foreclosure sale in 2024. You

have neither gain nor loss from the foreclosure sale. Because you weren't personally liable for the debt, you also have no cancellation of debt income.

Canceled debt. If the abandoned property secures a debt for which you are personally liable and the debt is canceled, you will realize ordinary income equal to the canceled debt. This income is separate from any amount realized from abandonment of the property. You must report this income on your return unless one of the exceptions or exclusions described in chapter 1 applies.

Forms 1099-A and 1099-C. In most cases, if you abandon:

- Real property (such as a home),
- Intangible property, or
- Tangible personal property held (wholly or partly) for use in a trade or business or for investment

that secures a loan and the lender knows the property has been abandoned, the lender should send you Form 1099-A showing information you need to figure your gain or loss from the abandonment. Also, if your debt is canceled and the lender must file Form 1099-C, the lender can include the information about the abandonment on that form instead of on Form 1099-A. The lender must file Form 1099-C and send you a copy if the amount of debt canceled is $600 or more and the lender is a financial institution, credit union, federal government agency, or other applicable entity, as discussed earlier in chapter 1.

For abandonments of property and debt cancellations occurring in 2023, these forms should be sent to you by January 31, 2024.

How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to download free publications, forms, or instructions, go to *IRS.gov* to find resources that can help you right away.

Preparing and filing your tax return. After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you qualify for free tax preparation, or hire a tax professional to prepare your return.

Free options for tax preparation. Your options for preparing and filing your return online or in your local community, if you qualify, include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using software or Free File Fillable Forms. However, state tax preparation may not be available through Free File. Go to *IRS.gov/FreeFile* to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.
- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. Go to *IRS.gov/VITA,* download the free IRS2Go app, or call 800-906-9887 for

information on free tax return preparation.

- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to *IRS.gov/TCE* or download the free IRS2Go app for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered by the Department of Defense through Military OneSource. For more information, go to *MilitaryOneSource* (*MilitaryOneSource.mil/MilTax*).

Also, the IRS offers Free Fillable Forms, which can be completed online and then e-filed regardless of income.

Using online tools to help prepare your return. Go to *IRS.gov/Tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/EITCAssistant*) determines if you're eligible for the earned income credit (EIC).
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number (EIN) at no cost.
- The *Tax Withholding Estimator (IRS.gov/W4App*) makes it easier for you to estimate the federal income tax you want your employer to withhold from your paycheck. This is tax withholding. See how your withholding affects your refund, take-home pay, or tax due.
- The *First-Time Homebuyer Credit Account Look-up* (*IRS.gov/HomeBuyer*) tool provides information on your repayments and account balance.

- The *Sales Tax Deduction Calculator* (*IRS.gov/SalesTax*) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).

Getting answers to your tax questions. On IRS.gov, you can get up-to-date information on current events and changes in tax law.

- *IRS.gov/Help*: A variety of tools to help you get answers to some of the most common tax questions.
- *IRS.gov/ITA*: The Interactive Tax Assistant, a tool that will ask you questions and, based on your input, provide answers on a number of tax topics.
- *IRS.gov/Forms*: Find forms, instructions, and publications. You will find details on the most recent tax changes and interactive links to help you find answers to your questions.

- You may also be able to access tax information in your e-filing software.

Need someone to prepare your tax return? There are various types of tax return preparers, including enrolled agents, certified public accountants (CPAs), accountants, and many others who don't have professional credentials. If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and
- Required to include their preparer tax identification number (PTIN).

Although the tax preparer always signs the return, you're ultimately responsible for providing all the information required for the preparer to accurately prepare your return and for the accuracy of every item reported on the

return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to Tips for Choosing a Tax Preparer on IRS.gov.

Employers can register to use Business Services Online. The Social Security Administration (SSA) offers online service at *SSA.gov/ employer* for fast, free, and secure W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement, and Form W-2c, Corrected Wage and Tax Statement.

IRS social media. Go to *IRS.gov/SocialMedia* to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don't** post your social

security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- *Youtube.com/irsvideos*.
- *Youtube.com/irsvideosmultilingua.*
- *Youtube.com/irsvideosASL*.

Watching IRS videos. The IRS Video portal *(IRSVideos.gov)* contains video and audio presentations for individuals, small businesses, and tax professionals.

Online tax information in other languages. You can find information on *IRS.gov/ MyLanguage* if English isn't your native language.

Free Over-the-Phone Interpreter (OPI) Service. The IRS is committed to serving taxpayers with limited-English proficiency (LEP) by offering OPI services. The OPI Service is a federally funded program and is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. The OPI Service is accessible in more than 350 languages.

Accessibility Helpline available for taxpayers with disabilities. Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in alternative media formats (for example, braille, large print, audio, etc.). The Accessibility Helpline does not have access to your IRS account. For help with tax law, refunds, or account-related issues, go to *IRS.gov/LetUsHelp.*

Note. Form 9000, Alternative Media Preference, or Form 9000(SP) allows you to elect to receive certain types of written correspondence in the following formats.

- Standard Print.
- Large Print.
- Braille.
- Audio (MP3).
- Plain Text File (TXT).
- Braille Ready File (BRF).

Disasters. Go to *IRS.gov/DisasterRelief* to review the available disaster tax relief.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all the forms, instructions, and publications you may need. Or, you can go to *IRS.gov/OrderForms* to place an order.

Getting tax publications and instructions in eBook format. Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at *IRS.gov/eBooks*.

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

Access your online account. Go to *IRS.gov/ Account* to securely access information about your federal tax account.

- View the amount you owe and a breakdown by tax year.
- See payment plan details or apply for a new payment plan.
- Make a payment or view 5 years of payment history and any pending or scheduled payments.

- Access your tax records, including key data from your most recent tax return, and transcripts.
- View digital copies of select notices from the IRS.
- Approve or reject authorization requests from tax professionals.
- View your address on file or manage your communication preferences.

Get a transcript of your return. With an online account, you can access a variety of information to help you during the filing season. You can get a transcript, review your most recently filed tax return, and get your adjusted gross income. Create or access your online account at *IRS.gov/Account*.

Tax Pro Account. This tool lets your tax professional submit an authorization request to access your individual taxpayer IRS online account. For more information, go to *IRS.gov/TaxProAccount*.

Using direct deposit. The safest and easiest way to receive a tax refund is to e-file and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, destroyed, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their refunds. If you don't have a bank account, go to *IRS.gov/DirectDeposit* for more information on where to find a bank or credit union that can open an account online.

Reporting and resolving your tax-related identity theft issues.

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.

- The IRS doesn't initiate contact with taxpayers by email, text messages (including shortened links), telephone calls, or social media channels to request or verify personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or similar information for credit cards, banks, or other financial accounts.
- Go to *IRS.gov/IdentityTheft*, the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax professionals, and businesses. If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, you can learn what steps you should take.
- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to taxpayers to help prevent the misuse of their SSNs on fraudulent federal income

tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to *IRS.gov/IPPIN.*

Ways to check on the status of your refund.

- Go to *IRS.gov/Refunds*.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

The IRS can't issue refunds before mid-February for returns that claimed the EIC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Making a tax payment. Payments of U.S. tax must be remitted to the IRS in U.S. dollars. *Digital assets* are **not** accepted. Go to

IRS.gov/ Payments for information on how to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- *Debit Card, Credit Card, or Digital Wallet*: Choose an approved payment processor to pay online or by phone.
- *Electronic Funds Withdrawal*: Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- *Electronic Federal Tax Payment System*: Best option for businesses. Enrollment is required.
- *Check or Money Order*: Mail your payment to the address listed on the notice or instructions.

- *Cash*: You may be able to pay your taxes with cash at a participating retail store.
- *Same-Day Wire*: You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

Note. The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick, easy, and faster than mailing in a check or money order.

What if I can't pay now? Go to *IRS.gov/Payments* for more information about your options.

- Apply for an *online payment agreement* (*IRS.gov/OPA*) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you

complete the online process, you will receive immediate notification of whether your agreement has been approved.

- Use the *Offer in Compromise Pre-Qualifier* to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to *IRS.gov/OIC.*

Filing an amended return. Go to *IRS.gov/Form1040X* for information and updates.

Checking the status of your amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040-X amended returns.

It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.

Understanding an IRS notice or letter you've received. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

Responding to an IRS notice or letter. You can now upload responses to all notices and letters using the Document Upload Tool. For notices that require additional action, taxpayers will be redirected appropriately on IRS.gov to take further action. To learn more about the tool go to *IRS.gov/Upload*.

Note. You can use Schedule LEP (Form 1040), Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language. You may not immediately receive written communications in the requested language. The IRS's commitment to LEP taxpayers is part of a multi-year timeline that began providing translations in 2023. You will continue to receive communications, including notices and letters, in English until they are translated to your preferred language.

Contacting your local TAC. Keep in mind, many questions can be answered on IRS.gov without visiting a TAC. Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment, so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects

taxpayer rights. TAS strives to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand what these rights mean to you and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do for You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. To find your advocate's number:

- Go to *TaxpayerAdvocate.IRS.gov/ContactUs;*
- Download Pub. 1546, The Taxpayer Advocate Service Is Your Voice at the IRS, available at *IRS.gov/pub/irs-pdf/p1546.pdf*;
- Call the IRS toll free at 800-TAX-FORM (800-829-3676) to order a copy of Pub. 1546;

- Check your local directory; or
- Call TAS toll free at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, report it to TAS at *IRS.gov/ SAMS.* Be sure to not include any personal taxpayer information.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS and TAS. LITCs represent individuals whose income is below a certain level and who need to resolve tax problems with the IRS. LITCs can represent taxpayers in audits, appeals, and tax collection disputes before the IRS and in court. In addition, LITCs can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. For more information or to find an

LITC near you, go to the LITC page at *TaxpayerAdvocate.IRS.gov/LITC* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*, at *IRS.gov/pub/irs-pdf/4134.pdf*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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