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**VITA/TCE Specialty Course – Cancellation of Debt (COD)
– Principal Residence**
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)

2014 COURSE
AND TEST



Take your VITA/TCE training online at www.irs.gov (keyword: Link & Learn Taxes). Link to the Practice Lab to gain experience using tax software and take the certification test online, with immediate scoring and feedback.



How to Get Technical Updates?

Updates to the volunteer training materials will be contained in Publication 4491X, VITA/TCE Training Supplement. To access this publication, in the upper right hand corner of www.irs.gov, type in “Pub 4491X” in the search field.

During the tax season Volunteer Tax Alerts will be issued periodically. Type “volunteer alerts”, in the search field to access all tax alerts.

Volunteer Standards of Conduct

VITA/TCE Programs

The mission of the VITA/TCE return preparation programs is to assist eligible taxpayers in satisfying their tax responsibilities by providing **free** tax return preparation. To establish the greatest degree of public trust, volunteers are required to maintain the highest standards of ethical conduct and provide quality service.

All VITA/TCE volunteers (whether paid or unpaid workers) must complete the *Volunteer Standards of Conduct Training*, and sign Form 13615, *Volunteer Standards of Conduct Agreement*, prior to working at a VITA/TCE site. In addition, return preparers, quality reviewers, and VITA/TCE tax law instructors must certify in tax law prior to signing this form. This form is not valid until the site coordinator, sponsoring partner, instructor, or IRS contact confirms the volunteer’s identity and signs and dates the form.

As a volunteer in the VITA/TCE Programs, you must:

1. Follow the Quality Site Requirements (QSR).
2. Not accept payment or solicit donations for federal or state tax return preparation.
3. Not solicit business from taxpayers you assist or use the knowledge you gained (their information) about them for any direct or indirect personal benefit for you or any other specific individual.
4. Not knowingly prepare false returns.
5. Not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA/TCE Programs.
6. Treat all taxpayers in a professional, courteous, and respectful manner.

Failure to comply with these standards could result in, but is not limited to, the following:

- Your removal from all VITA/TCE Programs;
- Inclusion in the IRS Volunteer Registry to bar future VITA/TCE activity indefinitely;
- Deactivation of your sponsoring partner’s site VITA/TCE EFIN (electronic filing ID number);
- Removal of all IRS products, supplies, loaned equipment, and taxpayer information from your site;
- Termination of your sponsoring organization’s partnership with the IRS;
- Termination of grant funds from the IRS to your sponsoring partner; and
- Referral of your conduct for potential TIGTA and criminal investigations.

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Confidentiality Statement:

All tax information you receive from taxpayers in your VOLUNTEER capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals.



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Cancellation of Debt (COD) – Principal Residence



Introduction

The Cancellation of Debt (COD) – Principal Residence course is an optional specialty training for volunteers with an Advanced Certification. A separate certification is required for volunteers on cancellation of debt issues. Check with your Site Coordinator to determine whether you should be certified in this topic.

This course will help you recognize when you can help taxpayers who have a canceled debt and when you must refer them elsewhere for help with their tax returns.

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Define cancellation of debt
- Identify the difference between recourse and nonrecourse debt
- Identify the exceptions and exclusions to the general rule for including canceled debt as income
- Determine the requirements for the cancellation of debt on principal residence when preparing tax returns
- Determine the filing requirements for recipients of foreclosures – Form 1099-A, Acquisition or Abandonment of Secured Property
- Determine the filing requirements for recipients of Form 1099-C, Cancellation of Debt
- Determine if a taxpayer may exclude from taxable income certain debt forgiven or canceled on a principal residence

Cancellation of Debt – Basics

A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property. Cancellation of indebtedness can involve auto loans, credit card debt, medical care, professional services, installment purchases of furniture or other personal property, mortgages, and home equity loans. Generally, if a debt for which a taxpayer is personally liable is canceled or forgiven, the taxpayer must include the canceled amount in income. There is no income from canceled debt if the cancellation or forgiveness of debt is a gift or bequest.

Use Form 13614-C, Intake/Interview & Quality Review Sheet, to determine if the taxpayer received one or both of Forms 1099-C, Cancellation of Debt, or 1099-A, Acquisition or Abandonment of Secured Property.

What do I need?

- Form 13614-C, Intake/Interview & Quality Review Sheet
- Publication 4012, Volunteer Resource Guide
- Publication 17
- Publication 4731-A
- Optional**
- Publication 4491-W
- Publication 4681
- Publication 523
- Publication 525
- Publication 544
- Publication 551
- Form 982
- Form 1040
- Form 1040 Instructions
- Form 1099-A
- Forms 1099-A and 1099-C Instructions
- Form 1099-C
- Form 8949
- Schedule D
- Schedule D Instructions



Refer to Publication 4731-A, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt, to ensure that the tax return being prepared is within scope of the VITA/TCE programs.

In Scope for VITA/TCE Programs

Cancellation of credit card debt is included in the Other Income lesson of Publication 4491 for Advanced certification.

Publication 4731 provides step-by-step guidance for the volunteer tax return preparer to determine if the cancellation of debt is within scope.

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

NOTE: Cancellation of credit card debt is included in the Other Income section of Publication 4491 for Advanced certification.



The qualified principal residence debt provision is subject to change. See the current Publication 4491X for any updates.

Taxability of Canceled Debt

Taxpayers often question the taxability of canceled debt because they did not receive money in hand. In situations where property is surrendered, such as a foreclosure, taxpayers feel that by giving up the property they are relieved from any further obligation. Explain that the benefit to the taxpayer is the relief from personal liability to pay the debt. Information in Publication 17, Your Federal Income Tax for Individuals, can assist with the explanation.

Additional resources include:

- Publication 523, Selling Your Home
- Publication 525, Taxable and Nontaxable Income
- Publication 544, Sales and Other Dispositions of Assets
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Publication 4731-A, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt

Generally, when debt is canceled, the lender will issue Form 1099-C, Cancellation of Debt, which is then reported by the recipients on their tax return. There are exceptions and exclusions to the general rule that determines whether a canceled debt is included as income. This is covered in greater detail later in the course.

Recourse vs. Nonrecourse Debt

There are two types of debts: recourse and nonrecourse. A recourse debt holds the borrower personally liable. All other debt is considered nonrecourse.

In general, recourse debt (loans) allows lenders to collect what is owed for the debt even after they've taken collateral (home, credit cards). Lenders have the right to garnish wages or levy accounts in order to collect what is owed.

A nonrecourse debt (loan) does not allow the lender to pursue anything other than the collateral. For example, if a borrower defaults on a nonrecourse home loan, the bank can only foreclose on the home. The bank generally cannot take further legal action to collect the money owed on the debt. Whether a debt is recourse or nonrecourse may vary from state to state, depending on state law.

If a lender cancels a debt and issues Form 1099-C, the lender will indicate on the form if the borrower was personally liable (recourse) for repayment of the debt. Go to www.irs.gov to view Form 1099-C.



If property securing the debt was foreclosed on or abandoned, the taxpayer may need to report the disposition (sale) on Form 8949 and Schedule D. This is covered in more detail later in this course.



Generally, if taxpayers abandon property that secures debt for which they are **personally liable**, they do not have a gain or loss until the foreclosure is completed.

If taxpayers abandon property that secures debt for which they are **not personally liable**, the abandonment is treated as a sale or exchange.

For more information on abandonments see Publication 4681.

Recourse debt holds the borrower personally liable for any amount not satisfied by the surrender of *secured property*.

- If a lender forecloses on property subject to a recourse debt and cancels the portion of the debt in excess of the fair market value (FMV) of the property, the canceled portion of the debt is treated as ordinary income from cancellation of indebtedness. This amount must be included in gross income unless it qualifies for an exception or exclusion.
- In addition to this cancellation of indebtedness income, the taxpayer may realize a gain or loss on the disposition of the property; this amount is generally the difference between the FMV of the property at the time of the foreclosure and the taxpayer's basis in the property.

Nonrecourse debt is satisfied by the surrender of the *secured property* regardless of the FMV at the time of surrender, and the borrower is not personally liable for the debt.

- If property that is subject to nonrecourse debt is abandoned, foreclosed upon, subject of a short sale, or repossessed by the lender, the circumstances are treated as a sale of the property by the taxpayer.
- In determining the gain or loss on the disposition of the property, the balance of the nonrecourse debt at the time of the disposition of the property is included in the amount realized (generally the selling price). Since the borrower is not personally liable for the debt, the difference between the FMV of the property and the balance of the loan is *not* included in gross income.

	Recourse Debt	Nonrecourse Debt
Borrower is...	Personally liable	Not personally liable
Canceled portion of debt is generally...	Treated as ordinary income and included in gross income (unless it qualifies as an exception or exclusion)	Not applicable. Nonrecourse debt is satisfied by the surrender of the secured property regardless of the FMV at the time of surrender.
Gain or loss on disposition of the property	Generally determined by the difference between the FMV of the property and the adjusted basis	The amount realized includes the balance of the nonrecourse debt at the time of the disposition of the property. This is true even if the FMV of the property is less than the outstanding debt.

example

Jason lost his home to foreclosure because he could no longer make his mortgage payments. At the time of foreclosure, he owed a balance of \$170,000 to the lender and the FMV of the property was \$140,000.

If Jason is personally liable for the debt (recourse loan), the selling price would be \$140,000.

If Jason is not personally liable for the debt (nonrecourse loan), the selling price would be \$170,000.

Exceptions and Exclusions

Some canceled or forgiven debts may be *eliminated* from income by applying exceptions, or *reduced* by applying exclusions to the general rule. **Exceptions are applied before exclusions.**

Exceptions

Exceptions may allow the taxpayer to eliminate the following types of canceled debt from income:

- Amounts otherwise excluded from income (e.g., gifts and bequests)
- Certain student loans (e.g., doctors, nurses, and teachers serving in rural or low-income areas)
- Deductible debt (e.g., home mortgage interest that would have been deductible on Schedule A)
- Price reduced after purchase (e.g., debt on solvent taxpayer's property is reduced by the seller; basis of property must be reduced)

For more information on exceptions, refer to Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

Exclusions

There are several exclusions from the general rule for reporting canceled debt as income.

Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, must be filed with the taxpayer's return to show the amount of the canceled debt excluded.

The exclusions are:

- Discharge of debt through bankruptcy
- Discharge of debt of insolvent taxpayer
- Discharge of qualified farm indebtedness
- Discharge of qualified real property business indebtedness
- Discharge of qualified principal residence indebtedness



The issues involved in exclusions can be complex. Only cancellation of qualified principal residence indebtedness is within the scope of VITA/TCE.

Cancellation of Debt – Principal Residence

Mortgage Forgiveness Debt Relief Act 2007

Under the Mortgage Forgiveness Debt Relief Act of 2007, taxpayers may exclude from income certain debt forgiven or canceled on their principal residence. This exclusion is applicable to the discharge of “qualified principal residence indebtedness.” If the canceled debt qualifies for exclusion from gross income, the debtor may be required to reduce tax attributes (certain credits, losses, and basis of assets) by the amount excluded.

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

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

The Mortgage Forgiveness Debt Relief Act of 2007 allows for the exclusion of discharged qualified principal residence indebtedness canceled in 2007, 2008, and 2009.

The Emergency Economic Stabilization Act of 2008 extended the exclusion for tax years 2010 through 2012. The American Taxpayer Relief Act of 2012 extended the exclusion to 12/31/2013.

The Tax Increase Prevention Act of 2014 extended the exclusion to 12/31/2014.

Qualified Principal Residence Indebtedness

Qualified principal residence indebtedness includes:

- Any debt incurred in acquiring, constructing, or substantially improving a principal residence that is secured by the principal residence
- Any debt *secured by the principal residence resulting from the refinancing of debt* incurred to acquire, construct, or substantially improve a principal residence, but only to the extent that the amount of debt does not exceed the amount of the refinanced indebtedness



A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at a time.

Exclusion Limit

The maximum amount that can be treated as qualified principal residence indebtedness is \$2 million (\$1 million if Married Filing Separately).

Canceled qualified principal residence indebtedness cannot be excluded from income if the cancellation was for services performed for the lender or on account of any factor not directly related to a decline in the value of the residence or the taxpayer’s financial condition.

Criteria for Canceled Principal Residence Debt

Volunteers may assist taxpayers who meet the following requirements:

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

example

Bob refinanced his personal residence and used the loan proceeds from the equity in his home to build a new master bedroom suite on the main level of his house. This debt is qualified principal residence indebtedness.

example

Tom refinanced his personal residence and used the loan proceeds from the equity in his home to pay off credit cards and buy a car. This debt is not qualified principal residence indebtedness.



EXERCISES

Use Publication 4731-A, Part II, to answer the following questions. The answers appear at the end of the lesson.

Question 1: A volunteer with Cancellation of Debt certification is working with Angie. Angie confirmed that she had to give up her principal residence and produced Form 1099-C for the cancellation of the mortgage loan. Angie explains that she did not file for bankruptcy, even though she experienced hardship due to the loss of income from no longer being able to rent out an upstairs bedroom and bath. Angie also verified that the mortgage loan was used entirely to purchase the home and was secured by the home. Her Form 1099-C lists the amount of debt canceled as \$60,000.

Should the volunteer assist Angie with her return? Yes No

Question 2: Fred went to his local VITA site to have his tax return prepared. The volunteer went through Fred's records and noticed Form 1099-C reflecting a canceled debt of \$50,000.

Using Publication 4731-A, Part II, as a guide, the volunteer learned Fred lost his job and could no longer make his mortgage payments. The bank foreclosed on Fred's home. Due to the housing market slump, the value of Fred's home had declined, and his mortgage balance was more than the fair market value of the home. The bank sold Fred's home and canceled the remaining debt (\$50,000) not covered by the sale price.

Upon further questioning, the volunteer learned Fred had refinanced his home two years ago and used the equity in the home to pay off some credit cards and take a trip to Las Vegas.

Should the volunteer assist Fred with the preparation of his return at the VITA site? Yes No

Foreclosures and Capital Gain or Loss

If a taxpayer does not make payments owed 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 the taxpayer may realize a gain or loss. This is true even if the taxpayer voluntarily returns the property to the lender.

Figure the gain or loss from a foreclosure or repossession the same way as the gain or loss from a sale. The gain is the difference between the amount realized and the adjusted basis of the transferred property (amount realized minus adjusted basis). The loss is the difference between the adjusted basis in the transferred property and the amount realized (adjusted basis minus amount realized).

When a residence that is security for a mortgage is abandoned or foreclosed upon, the gain or loss must be reported on the return and is subject to the rules for a Sale of Residence.

Generally, the amount realized on a foreclosure is considered to be the selling price. But this selling price depends, in part, on whether the debt was recourse debt or nonrecourse debt. In addition, the taxpayer may also have ordinary income from the cancellation of debt.

Use the Worksheet for Foreclosures and Repossessions in Publication 4681 to figure the ordinary income from the cancellation of debt and the gain or loss from a foreclosure or repossession.

Generally, the taxpayer's gain or loss from a foreclosure or abandonment is reported on Form 8949 and Schedule D.

If the taxpayer is personally liable for the debt (recourse debt), and the amount of outstanding debt (mortgage) is more than the home's FMV, the difference is treated as cancellation of debt income.

- If the canceled debt qualifies as excludable from gross income, the exclusion is reported on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment)
- Otherwise, the canceled debt is reportable as ordinary income on Form 1040, line 21 and is beyond the scope of VITA/TCE

Form 1099-A, Acquisition or Abandonment of Secured Property

When a personal residence is foreclosed upon, and the lender cancels a portion of the debt, the taxpayer will generally receive Form 1099-A and Form 1099-C. If, in the same calendar year, the debt is canceled in connection with a foreclosure of secured property, the lender has the option of issuing Form 1099-C only.

The filing requirements of Form 1099-A are met by the lender completing the following on Form 1099-C:

- Debt description
- The debtor was personally liable for the repayment of the debt
- Fair market value of property

Verify with the taxpayer that the information on Form 1099-A and Form 1099-C is correct. Pay particular attention to the amount of debt forgiven and the fair market value reported. Advise the taxpayer to contact the lender immediately if any of the information is not correct.



A loss on the sale or disposition of a personal residence is not deductible. A gain may qualify for the Section 121 exclusion (\$250,000 or \$500,000 for Married Filing Jointly taxpayers) for a gain on the sale of a personal residence.



If the canceled debt is reportable on Form 1040, line 21 or the canceled debt is not fully excludable from gross income, the issue is beyond the scope of the VITA/TCE programs.

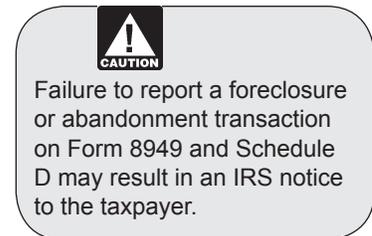


For more information on determining the basis for sale of residence see the lesson on Income – Capital Gain or Loss, or Publication 17.

Form 1099-A, issued by the lender, reports the outstanding debt and the fair market value of the property. This form provides information needed to determine the amount of any gain or loss due to foreclosure or abandonment. Report the gain or loss from Form 1099-A on Form 8949 and Schedule D.

The sale price (amount realized) is based on whether the taxpayer is personally liable (recourse loan) or not personally liable (nonrecourse loan) for the debt.

- If the taxpayer is personally liable, the sale price is the **lesser** of the balance of the principal mortgage debt outstanding or the fair market value
- If the taxpayer is not personally liable, then the sale price is the full amount of the outstanding debt, as reflected on Form 1099-A
- For both recourse and nonrecourse loans, add any proceeds the taxpayer received from the foreclosure sale to the amount realized



Generally, if there is a loss on the sale of a principal residence or the entire gain is excluded under the Section 121 exclusion (\$250,000 or \$500,000 for Married Filing Jointly), the sale does not have to be reported. However, taxpayers who receive Form 1099-A should report the sale to account for the basis in the property.

Form 1099-C, Cancellation of Debt

Lenders or creditors are required to issue Form 1099-C if they cancel a debt owed to them of \$600 or more. Generally, an individual taxpayer must include all canceled amounts (even if less than \$600) on the “Other Income” line of Form 1040.

However, under certain circumstances, a taxpayer may not have to include canceled debt in income. For example, if the canceled debt is related to the taxpayer’s principal residence, the taxpayer may be able to exclude all or a portion of canceled debt if it is “qualified principal residence indebtedness.” The amount excluded due to the “discharge of qualified principal residence indebtedness” is reported on Form 982.

In addition to debtor information, Form 1099-C reports the amount of debt canceled and the date canceled. **If the form has event code “A” indicating bankruptcy, or if an amount is included for interest, refer the taxpayer to a professional tax preparer.**

Form 982 must be filed with the taxpayer’s return to report the excluded amount of discharged indebtedness and the reduction of certain tax attributes. Taxpayers excluding discharged debt from “qualified principal residence indebtedness” must complete only a few lines on Form 982; check the discharge of qualified principal residence indebtedness box and include the amount of debt discharged from Form 1099-C to Form 982. If the taxpayer kept ownership of the home, the basis adjustment to the principal residence for the excluded canceled debt must be reflected on the form.

Coordination with Form 1099-A

As mentioned earlier, if a personal residence is foreclosed upon, and the debt is canceled in the same year, the taxpayer may receive Form 1099-C *only*. The required filing information from Form 1099-A will be shown on Form 1099-C.

Generally, the gross foreclosure bid price is considered to be the FMV. For an abandonment or voluntary conveyance in lieu of foreclosure, the FMV is generally the appraised value of the property.

For a recourse loan, the sale price is the **lesser** of the balance of the principal debt (mortgage) outstanding or fair market value.

Mortgage Workouts and Form 1099-C

Homeowners whose mortgage debt is partly forgiven through a loan modification, or “workout,” which allows them to continue owning their residence, will receive Form 1099-C reporting the amount of debt discharged. Because the taxpayer kept ownership of the home, there is no gain or loss to be reported.

However, if the canceled debt meets the requirements of “qualified principal residence indebtedness,” Form 982 must be completed to report the amount excluded from gross income and the reduction of tax attributes. See Publication 4012, Income tab, Capital Loss on Foreclosure, on how to complete Form 982.

Taxpayers who are not personally liable for the debt (nonrecourse debt) do not have ordinary income from the cancellation of the debt unless the lender:

- Offered a discount for the early payment of the debt or
- Agreed to a loan modification that resulted in the reduction of the principal balance of the debt

If a lender offers to discount (reduce) the principal balance of a loan that is paid off early, or agrees to a loan modification (“workout”) that includes a reduction in the principal balance of a loan, the amount of the discount or the amount of the principal reduction is *canceled debt* whether or not the taxpayer is personally liable for the debt. The amount of the canceled debt must be included in income unless the exceptions or exclusions discussed earlier apply.

Gain or Loss Reported on Form 8949 and Schedule D

Form 8949, Sales and Other Dispositions of Capital Assets, includes all capital gain and loss transactions. The subtotals from Form 8949 are carried over to Schedule D, Capital Gains and Losses, where gain or loss is calculated in aggregate.

Losses on a personal residence are never deductible. Gains (all or part) may be excluded under the rules regarding the sale of a personal residence (Section 121 exclusion).

For more information on how to report the gain or losses, see the instructions for Form 8949.

See Publication 4012, Income tab, Capital Loss on Foreclosure, that shows how a foreclosure was reported on the Capital Gain or Loss Transaction Worksheet based on the information provided on Form 1099-A.

Case Study – Reporting a Foreclosure and Canceled Debt

Frank bought his home on May 14, 2003. His basis in the home was \$200,000. After he lost his job last year, he was not able to make the payments. The bank foreclosed in June of the current year, and Frank moved out. At the time of the foreclosure, the fair market value of the home was \$125,000 and the principal balance of the mortgage was \$195,000. All of the debt was incurred to purchase the home. Frank received Form 1099-C for the amount of debt canceled by his bank.

Frank has qualified principal residence indebtedness. His tax return should include Form 8949 and Schedule D to show the basis of the home disposed of through foreclosure, and Form 982 to exclude the debt cancellation from income.



The following case studies are only examples of how the mentioned issues and forms can look and be reported. The dates and years of the forms are relevant for these case studies.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-1424	
CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. FIRST BANK ANYWHERE USA		1 Date of identifiable event 6/25/2014	<div style="font-size: 2em; font-weight: bold;">2014</div>
		2 Amount of debt discharged \$ 70,000.00	
		3 Interest if included in box 2 \$	
CREDITOR'S federal identification number XX-XXXXXXX		DEBTOR'S identification number XXX-XX-XXXX	
DEBTOR'S name FRANK LINCOLN		4 Debt description HOME MORTGAGE LOAN 1111 ANYWHERE STREET ANYWHERE TOWN, STATE ZIP	
Street address (including apt. no.) ANYWHERE		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code CITY, STATE ZIP USA		6 Identifiable event code	
Account number (see instructions) 1234567		7 Fair market value of property \$ 125,000.00	
Form 1099-C (keep for your records)		Department of the Treasury - Internal Revenue Service	

Cancellation of Debt

Copy B For Debtor
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side
FRANK LINCOLNSocial security number or taxpayer identification number
XXX-XX-XXXX

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either may show your basis (usually your cost) even if your broker did not report it to the IRS. Brokers must report basis to the IRS for most stock you bought in 2011 or later (and for certain debt instruments you bought in 2014 or later).

Part II Long-Term. Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
 (F) Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see Column (e) in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Main Home Form 1099-A	05/14/03	06/25/14	\$ 125,000	\$ 200,000	L	\$ 75,000	\$ 0

2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked) ▶

\$ 125,000	\$ 200,000		\$ 75,000	\$ 0
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Note. If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked.	\$125,000	\$200,000	\$75,000	\$0
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss) . Combine lines 8a through 14 in column (h). Then go to Part III on the back				15 \$0

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2014

Form **982**
(Rev. July 2013)
Department of the Treasury
Internal Revenue Service

Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

OMB No. 1545-0046

▶ Attach this form to your income tax return.

▶ Information about Form 982 and its instructions is at www.irs.gov/form982.

Attachment
Sequence No. **94**

Name shown on return

FRANK LINCOLN

Identifying number

XXX-XX-XXXX

Part I General Information (see instructions)

- 1** Amount excluded is due to (check applicable box(es)):
 - a** Discharge of indebtedness in a title 11 case
 - b** Discharge of indebtedness to the extent insolvent (not in a title 11 case)
 - c** Discharge of qualified farm indebtedness
 - d** Discharge of qualified real property business indebtedness
 - e** Discharge of qualified principal residence indebtedness
- 2** Total amount of discharged indebtedness excluded from gross income **2** **\$70,000**
- 3** Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? Yes No

Part II Reduction of Tax Attributes. You must attach a description of your transactions in the reduction in

Case Study Alternative – Mortgage Workout

If Frank had been able to negotiate a workout with his mortgage lender (reducing the amount he owed on the mortgage and staying in the home), he would not have completed Form 8949 and Schedule D because he had not disposed of the asset.

Assume Frank's lender agreed to reduce his mortgage debt from \$195,000 to \$175,000. The lender issued Frank a Form 1099-C showing \$20,000 of canceled debt. Frank's Form 982 would be completed, but the amount of debt forgiven (or his basis in the home, whichever was smaller) would need to be entered on the form, and his basis in the home would be decreased by that amount.

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. FIRST BANK ANYWHERE USA		1 Date of identifiable event 6/25/2014	OMB No. 1545-1424
		2 Amount of debt discharged \$ 70,000.00	2014
		3 Interest if included in box 2 \$	
CREDITOR'S federal identification number XX-XXXXXXX		DEBTOR'S identification number XXX-XX-XXXX	Form 1099-C
DEBTOR'S name FRANK LINCOLN		4 Debt description HOME MORTGAGE LOAN 1111 ANYWHERE STREET ANYWHERE TOWN, STATE ZIP	
Street address (including apt. no.) ANYWHERE		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code CITY, STATE ZIP USA			
Account number (see instructions) 1234567		6 Identifiable event code	7 Fair market value of property \$

Cancellation of Debt

Copy B For Debtor

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

Form **982**
(Rev. July 2013)
Department of the Treasury
Internal Revenue Service

Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

OMB No. 1545-0046

▶ Attach this form to your income tax return.

Attachment Sequence No. **94**

▶ Information about Form 982 and its instructions is at www.irs.gov/form982.

Name shown on return

FRANK LINCOLN

Identifying number

XXX-XX-XXXX

Part I General Information (see instructions)

- Amount excluded is due to (check applicable box(es)):
 - Discharge of indebtedness in a title 11 case
 - Discharge of indebtedness to the extent insolvent (not in a title 11 case)
 - Discharge of qualified farm indebtedness
 - Discharge of qualified real property business indebtedness
 - Discharge of qualified principal residence indebtedness
- Total amount of discharged indebtedness excluded from gross income **2** **\$20,000**
- Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? Yes No

Part II Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)

Enter amount excluded from gross income:		
4	For a discharge of qualified real property business indebtedness applied to reduce the basis of depreciable real property	4
5	That you elect under section 108(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property	5
6	Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge	6
7	Applied to reduce any general business credit carryover to or from the tax year of the discharge	7
8	Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge	8
9	Applied to reduce any net capital loss for the tax year of the discharge, including any capital loss carryovers to the tax year of the discharge	9
10a	Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. <i>DO NOT use in the case of discharge of qualified farm indebtedness</i>	10a
10b	Applied to reduce the basis of your principal residence. <i>Enter amount here ONLY if line 1e is checked</i>	10b \$20,000
11	For a discharge of qualified farm indebtedness applied to reduce the basis of: <ol style="list-style-type: none"> Depreciable property used or held for use in a trade or business or for the production of income if not reduced on line 5 	



EXERCISES (continued)

Question 3: A volunteer with Cancellation of Debt certification is working with Robert. The volunteer asks Robert if he underwent foreclosure or had to give up his home during the tax year. Robert confirmed that he did, and produced Form 1099-A. The volunteer asked Robert if he had received Form 1099-C, and Robert replied that he did not. Examining the form, the volunteer noted the balance of principal outstanding was \$234,000. What should the volunteer do next?

- A. Ask the questions on Publication 4731-A, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt
- B. Ask enough probing questions to determine if Robert had a gain or loss on the foreclosure
- C. Refer Robert to a professional tax preparer
- D. Complete Form 982

Question 4: Mary purchased her main home in June 2004 for \$175,000. She lost her job and was no longer able to make her mortgage payments during the current year. In July of the current year, Mary moved out of the home to live with relatives. On July 15, the bank foreclosed on the home. On November 15, the bank discontinued its collection activity and canceled the remaining debt. The fair market value at the time of foreclosure was \$100,000 because of the poor housing market, but Mary still owed \$150,000 on the mortgage. None of the loan proceeds were used for any purpose other than to buy, build, or substantially improve the principal residence. Mary never used the home for business or rental purposes and has not filed for bankruptcy. Based on this information, what should the volunteer do?

- A. Refer Mary to another source for tax return preparation
- B. Report a loss of \$50,000 on Schedule D
- C. Report \$50,000 debt canceled on Form 982
- D. Include the debt cancellation amount in income

Question 5: After Tom became ill and could not work full time, he and his wife, Grace, were having difficulty making their mortgage payments. Rather than go through the expense of a foreclosure, the lender agreed to reduce the principal on their loan and refinance it with a better interest rate and lower payments. The principal balance before the November 1 of the current year workout was \$130,000, and the lender reduced the loan to \$110,000. None of the loan proceeds were used for any purpose other than to buy, build, or substantially improve the principal residence. The home has never been used for business or as rental property, and the taxpayers have not filed for bankruptcy.

Based on this information, what should the volunteer do?

- A. Refer Tom and Grace to another source for tax return preparation
- B. Report the reduction in the basis of the home on line 10b of Form 982
- C. Report the \$20,000 as a loss on Schedule D
- D. Include the debt cancellation amount in income



EXERCISES (continued)

Question 6: Gene bought his home in 2003. His basis in the home was \$210,000. He lost his job in January of this year and was not able to make the mortgage payments. The bank foreclosed in August and Gene moved out. At the time of the foreclosure, the fair market value was \$145,000 and the principal balance of the mortgage was \$185,000. All of the debt was incurred to purchase the home, it was never used for business or as a rental, and Gene has not filed for bankruptcy. Gene has a Form 1099-C. Gene is personally liable for repayment of the debt.

How should the foreclosure and loss be reported?

- A. Report the \$40,000 debt cancellation on Form 982, line 10b
- B. Report the \$40,000 debt cancellation on Form 982, line 2, only
- C. Report the \$40,000 debt cancellation on Form 982, line 2, and the foreclosure on Form 8949 and Schedule D
- D. Report the \$40,000 debt cancellation on Form 1040, line 21

Summary

Cancellation of Debt is an optional specialty training for volunteers with an Advanced Certification. A separate certification is required for volunteers on cancellation of debt issues. A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property. Cancellation of indebtedness can involve auto loans, credit card debt, medical care, professional services, installment purchases of furniture or other personal property, mortgages, and home equity loans.

Cancellation of debt can be complex. VITA/TCE volunteers may assist a taxpayer with issues related to cancellation of debt as long as the taxpayer meets all the criteria for discharge of qualified principal residence indebtedness or if all debt canceled and reported on Form 1099-C was nonbusiness credit card debt.

Taxpayers who go through a foreclosure or abandonment of their principal residence receive Form 1099-A, Acquisition or Abandonment of Secured Property. Form 1099-A will have information needed to determine the gain or loss due to the foreclosure or abandonment.

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

Use Publication 4731-A, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt, which provides questions and step-by-step guidance to determine whether the cancellation of debt issue is within scope for the VITA/TCE programs.

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

What situations are out of scope for the VITA/TCE programs?

The following are out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Cancellation of debt for issues other than “qualified principal residence indebtedness” or nonbusiness credit card debt
- Cancellation of debt for a principal residence that was used in a business or as rental property
- Cancellation of debt when Form 1099-C includes an amount for interest
- Cancellation of debt was because the taxpayer filed bankruptcy or was insolvent immediately before the debt was canceled



EXERCISE ANSWERS

Answer 1: No. Because Angie used part of the home as rental property, all the canceled debt may not qualify to be excluded from income. The rules involving mortgage debt exclusions are complex. Angie should be referred to a professional tax preparer.

Answer 2: No. Fred's situation is outside the scope of the volunteer program since a portion of his refinanced debt was used for purposes other than to buy, build, or substantially improve his principal residence. Fred should be referred to a professional tax preparer, per the guidance on Publication 4731-A.

Answer 3: A. The volunteer should use Publication 4731-A, Part I to determine if Robert had a gain or loss on the foreclosure. If the taxpayer receives a Form 1099-C, the volunteer would use the screening sheet to determine if the related tax issues are within scope.

Answer 4: C. The volunteer would need to complete Form 8949, Schedule D, and Form 982. Although there is a loss, it cannot be deducted. The mortgage debt cancellation is not included in income on the tax return because it is covered by the qualified principal residence indebtedness exclusion on Form 982.

Answer 5: B. The volunteer would complete Form 982 and report the reduction in the basis of the home. The \$20,000 in debt cancellation can be excluded as qualified principal residence indebtedness on Form 982 and is not counted as income on the tax return. Form 8949 and Schedule D are not required because Tom and Grace did not dispose of the home.

Answer 6: C. Form 982, Form 8949, and Schedule D should be completed. When a residence that is security for a mortgage is abandoned or foreclosed upon, it is treated as having been sold. This results in the foreclosure being reported on Form 8949 and Schedule D as sale of home. Failure to file Form 8949 and Schedule D may result in an IRS notice to the taxpayer.



Cancellation of Debt – Practice Scenarios

Now that you have completed the Cancellation of Debt course, let's practice. Five practice scenarios are provided to help you apply what you have learned.

Scenarios 1, 2, and 3 involve cancellation of debt issues on the taxpayer's principal residence. The first scenario does not require you to prepare a tax return. For practice using the tax preparation software, review the interview notes and taxpayer documents in order to complete a tax return for scenarios 2 and 3.

To answer the questions, complete Form 1040, page 1, and the appropriate forms and schedules.

The Practice Lab on Link & Learn Taxes is available for you to complete the returns using tax preparation software. After you answer the questions, you can check your answers, which are listed at the end of this course.

Practice Scenario 1 – Mike and Marilyn Albion

Interview Notes

Mike and Marilyn owned and lived in their home since 2001. They could not make the mortgage payments, so they moved out of their home in July 2014. In January 2015, they received Form 1099-C from their mortgage company. Box 2 showed canceled debt of \$75,000 and box 5 indicated that the loan was a recourse loan, which made them personally liable for the debt. Their home was never used in a business or as a rental property. The mortgage was used to purchase the home and was secured by the home. They did not file bankruptcy.

Practice Scenario 1 Questions

Answers appear at the end of the lesson.

- 1-1 Mike and Marilyn's debt is referred to as nonrecourse debt. True False
- 1-2 Mike and Marilyn will not have to report the canceled debt as income because it meets one of the exclusions to the general rule. True False
- 1-3 The canceled debt will be reported on:
- A. Form 1040, line 21
 - B. Form 982, line 2
 - C. Form 982, line 10b
 - D. All of the above
- 1-4 VITA/TCE volunteers can assist taxpayers who lose their home during bankruptcy. True False

Practice Scenario 2 – Larry and Donna Rusk

Interview Notes

- Larry and Donna are married and want to file a joint return.
- Larry is a middle school art teacher.
- Donna lost her job and received unemployment.
- They stopped making their house payments in December 2013, and the bank foreclosed on August 16, 2014. They had owned and lived in the home since June 10, 2001. The cost of the home was \$150,000. The home was never used for business or rental purposes. The balance of the mortgage principal at the time of foreclosure was \$133,000.
- The bank issued a 1099-C for debt canceled.
- They want to have their refund direct deposited: Routing #062005690 Acct. #123876-4.



Intake/Interview & Quality Review Sheet

You will need:

- Tax information such as Forms W-2, 1099, 1098.
- Social security cards or ITIN letters for all persons on your tax return.
- Picture ID (such as valid driver's license) for you and your spouse.

• Please complete pages 1-3 of this form.

- You are responsible for the information on your return. Please provide complete and accurate information.
- If you have questions, please ask the IRS certified volunteer preparer.

Part I - Your Personal Information

1. Your first name LARRY	M.I.	Last name RUSK	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name DONNA	M.I.	Last name RUSK	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 8899 LIGHTWOOD STREET		Apt #	State YS
4. Telephone number(s) YOUR PHONE #		City YOUR CITY	ZIP code YOUR ZIP

5. Your Date of Birth **07/29/1980** 6. Your job title **TEACHER** 7. Last year, were you: a. Full time student Yes No

8. Your spouse's Date of Birth **01/30/1982** 9. Your spouse's job title **UNEMPLOYED** b. Totally and permanently disabled Yes No c. Legally blind Yes No

10. Last year, was your spouse: a. Full time student Yes No

11. Can anyone claim you or your spouse on their tax return? Yes No b. Totally and permanently disabled Yes No c. Legally blind Yes No

12. Have you or your spouse: a. Been a victim of identity theft? Yes No b. Adopted a child? Yes No

Part II - Marital Status and Household Information

1. As of December 31 of last year, Single (This includes registered domestic partnerships, civil unions, or other formal relationships under state law) were you:

Married a. Did you live with your spouse during any part of the last six months of 2014? Yes No

Divorced or Legally Separated b. Was your marriage recognized under the laws of the state(s) you are filing in? Yes No c. Unsure

Widowed Date of final decree or separate maintenance agreement _____

Year of spouse's death _____

2. List the names below of:

- **everyone** who lived with you last year (other than you or your spouse)
- **anyone** you supported but did not live with you last year

If additional space is needed check here and list on page 3

Name (first, last) Do not enter your name or spouse's name below		Date of Birth (mm/dd/yy)	Relationship to you (for example, son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/14 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	To be completed by a Certified Volunteer Preparer							
(a)	(b)									(c)	(d)	(e)	(f)	(g)	(h)	(i)	Can this person be claimed by someone else as a dependent on their return? (yes/no)

Volunteers are trained to provide high quality service and uphold the highest ethical standards.
To report unethical behavior to the IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205

Yes No Unsure Check appropriate box for each question in each section

Part III - Income - Last Year, Did You (or Your Spouse) Receive

- 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? _____
- 2. (A) Tip Income?
- 3. (B) Scholarships? (Forms W-2, 1098-T)
- 4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
- 5. (B) Refund of state/local income taxes? (Form 1099-G)
- 6. (B) Alimony income?
- 7. (A) Self-Employment income? (Form 1099-MISC, cash)
- 8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
- 9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
- 10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
- 11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
- 12. (B) Unemployment compensation? (Form 1099-G)
- 13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
- 14. (M) Income (or loss) from Rental Property?
- 15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV - Expenses - Last Year, Did You (or Your Spouse) Pay

- 1. (B) Alimony? If yes, do you have the recipient's SSN? Yes No Roth IRA (B) _____
- 2. Contributions to a retirement account? IRA (A) 401K (B) Other _____
- 3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
- 4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
- 5. (B) Medical expenses? (including health insurance premiums)
- 6. (B) Home mortgage interest? (Form 1098)
- 7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
- 8. (B) Charitable contributions?
- 9. (B) Child or dependent care expenses such as daycare?
- 10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
- 11. (A) Expenses related to self-employment income or any other income you received?

Part V - Life Events - Last Year, Did You (or Your Spouse)

- 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
- 2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
- 3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
- 4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
- 5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.) _____
- 6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
- 7. (A) Receive the First Time Homebuyers Credit in 2008?
- 8. (B) Pay any student loan interest? (Form 1098-E)
- 9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
- 10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D? _____

Catalog Number 52121E

www.irs.gov

Form 13614-C (Rev. 6-2014)

a Employee's social security number 381-XX-XXXX		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile							
b Employer identification number (EIN) 59-2XXXXXX				1 Wages, tips, other compensation 30,559.00		2 Federal income tax withheld 3,746.35									
c Employer's name, address, and ZIP code OAK TRAIL MIDDLE SCHOOL 200 OAK TRAIL ROAD YOUR CITY, STATE ZIP				3 Social security wages 32,559.00		4 Social security tax withheld 2,018.66									
				5 Medicare wages and tips 32,559.00		6 Medicare tax withheld 472.11									
				7 Social security tips		8 Allocated tips									
d Control number				9		10 Dependent care benefits									
e Employee's first name and initial Last name Suff. LARRY RUSK 8899 LIGHTWOOD ST. YOUR CITY, STATE ZIP				11 Nonqualified plans		12a See instructions for box 12 D 2,000.00									
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b									
				14 Other		12c									
						12d									
f Employee's address and ZIP code				15 State Employer's state ID number YS 59-2XXXXXX		16 State wages, tips, etc. 30,559.00		17 State income tax 1,100.00		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement

2014

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

a Employee's social security number 382-XX-XXXX		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile							
b Employer identification number (EIN) 59-3XXXXXX				1 Wages, tips, other compensation 5,900.00		2 Federal income tax withheld 590.00									
c Employer's name, address, and ZIP code DAISY DAY CARE 1945 FLOWER RD. YOUR CITY, STATE ZIP				3 Social security wages 5,900.00		4 Social security tax withheld 365.80									
				5 Medicare wages and tips 5,900.00		6 Medicare tax withheld 85.55									
				7 Social security tips		8 Allocated tips									
d Control number				9		10 Dependent care benefits									
e Employee's first name and initial Last name Suff. DONNA RUSK 8899 LIGHTWOOD ST. YOUR CITY, STATE ZIP				11 Nonqualified plans		12a See instructions for box 12									
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b									
				14 Other		12c									
						12d									
f Employee's address and ZIP code				15 State Employer's state ID number YS 59-3XXXXXX		16 State wages, tips, etc. 5,900.00		17 State income tax		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement

2014

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. GEORGIA STATE UNEMPLOYMENT COMMISSION 456 PEACHTREE STREET YOUR CITY, STATE ZIP		1 Unemployment compensation \$ 4,500.00	OMB No. 1545-0120 2014 Form 1099-G	Certain Government Payments
PAYER'S federal identification number 53-XXXXXXX	RECIPIENT'S identification number 382-XX-XXXX	2 State or local income tax refunds, credits, or offsets \$	3 Box 2 amount is for tax year	
RECIPIENT'S name DONNA RUSK Street address (including apt. no.) 8899 LIGHTWOOD STREET City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		5 RTAA payments \$	6 Federal income tax withheld \$ 0.00	Copy 1 For State Tax Department
Account number (see instructions)		7 Agriculture payments \$	8 Check if box 2 is trade or business income <input type="checkbox"/>	
		9 Market gain \$	11 State income tax withheld \$	
		10a State	10b State identification no.	

Form **1099-G** www.irs.gov/form1099g Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. BEACON FIRST NATIONAL BANK 500 N MARKET STREET YOUR CITY, STATE ZIP		1 Date of identifiable event 08/16/2014	OMB No. 1545-1424 2014 Form 1099-C	Cancellation of Debt
CREDITOR'S federal identification number 59-XXXXXXX	DEBTOR'S identification number 381-XX-XXXX	2 Amount of debt discharged \$ 21,000.00	3 Interest if included in box 2 \$	
DEBTOR'S name LARRY AND DONNA RUSK Street address (including apt. no.) 8899 LIGHTWOOD STREET City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		4 Debt description HOME MORTGAGE LOAN 415 CEDAR TRAIL YOUR CITY, STATE ZIP		Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
Account number (see instructions)		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	6 Identifiable event code	
		7 Fair market value of property \$ 112,000.00		

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

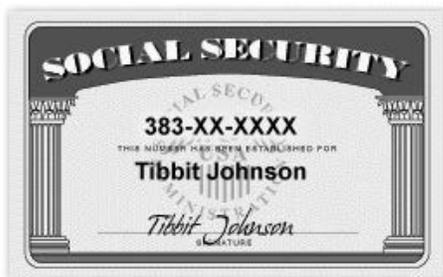
Practice Scenario 2 Questions

- 2-1** What is the amount of canceled debt excluded from gross income on Form 982, line 2?
- A. \$0
 - B. \$21,000
 - C. \$112,000
 - D. \$133,000
- 2-2** What is the net long-term capital gain or loss shown on Schedule D, line 15?
- A. (\$21,000)
 - B. \$0
 - C. \$17,000
 - D. \$21,000
- 2-3** Which of the following would cause the Rusks' return to be out of scope for VITA/TCE volunteers?
- A. They filed bankruptcy
 - B. They rented out the basement apartment
 - C. They took out a home equity loan and used the proceeds to pay off credit card debt
 - D. All of the above
- 2-4** What is the amount of canceled debt the Rusks will report as income on Form 1040, line 21? \$_____
- 2-5** What is the Rusks' total income on Form 1040, line 22?
- A. \$36,459
 - B. \$40,959
 - C. \$50,559
 - D. \$60,959

Practice Scenario 3 – Tibbit Johnson

Interview Notes

- Tibbit Johnson is a retired school teacher and a widower with two adult children. His wife, Sasha, passed away in 2013. At the time of his wife's death, she was employed full-time as a bank teller.
- He has not remarried.
- After the death of his wife, he was struggling to make the mortgage payment on his residence on his teacher's pension alone. In November 2014 he worked out a loan modification agreement with his lender, reducing his monthly payment by \$200, which allowed him to keep his home.
- Tibbit received a Form 1099-R for his teacher's pension and his only other source of income was \$7 in interest on a savings account he had with Teachers Credit Union. He did not receive a Form 1099-INT from the credit union.
- The mortgage breakdown was:
 - Year 1994, mortgage secured to buy the house: \$175,000
 - Year 2002, second mortgage loan to replace the roof and windows: \$25,000
- The home's fair market value (FMV) had fallen to \$160,000 when the mortgage workout with his lender occurred. Tibbit owed \$173,000 on the combined first and second mortgage loans before the mortgage workout with his lender. The lender agreed to refinance the two loans into one and reduce the mortgage principal balance to the current fair market value.
- Tibbit received Form 1099-C reflecting \$13,000 in cancellation of debt. He was solvent at the time the debt was canceled and was not in bankruptcy. The house has never been rented or used for any business purpose.
- Tibbit and Sasha itemized on their joint 2013 return and did not receive a refund on their state return. Tibbit is wondering if he should itemize on his 2014 return.
- Tibbit wants to know if he can still deduct the \$1,200 in mortgage interest. He has no other deductible expenses.
- He would like any refund to be direct deposited into his checking account. Routing #062005690 and Account #123967-3.



Intake/Interview & Quality Review Sheet

You will need:

- Tax information such as Forms W-2, 1099, 1098.
- Social security cards or ITIN letters for all persons on your tax return.
- Picture ID (such as valid driver's license) for you and your spouse.

• Please complete pages 1-3 of this form.

- You are responsible for the information on your return. Please provide complete and accurate information.
- If you have questions, please ask the IRS certified volunteer preparer.

Part I - Your Personal Information

1. Your first name TIBBIT	M.I.	Last name JOHNSON	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name	M.I.	Last name	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 8301 HOLLY PLACE	Apt #	City YOUR CITY	State YS
4. Telephone number(s) YOUR PHONE #			ZIP code YOUR ZIP

Email address (optional) **NONE**

5. Your Date of Birth **07/13/1949** 6. Your job title **RETIRED**

7. Last year, were you: a. Full time student Yes No

 b. Totally and permanently disabled Yes No c. Legally blind Yes No

8. Your spouse's Date of Birth 9. Your spouse's job title

 b. Totally and permanently disabled Yes No c. Legally blind Yes No

11. Can anyone claim you or your spouse on their tax return? Yes No Unsure

12. Have you or your spouse: a. Been a victim of identity theft? Yes No b. Adopted a child? Yes No

Part II - Marital Status and Household Information

1. As of December 31 of last year, Single (This includes registered domestic partnerships, civil unions, or other formal relationships under state law) were you:

Married a. Did you live with your spouse during any part of the last six months of 2014? Yes No

Divorced or Legally Separated b. Was your marriage recognized under the laws of the state(s) you are filing in? Yes No Unsure

Widowed Date of final decree or separate maintenance agreement _____

 Year of spouse's death **2012**

2. List the names below of:

- **everyone** who lived with you last year (other than you or your spouse)
- **anyone** you supported but did not live with you last year

Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yyyy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/14 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	To be completed by a Certified Volunteer Preparer					
									Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have less than \$3950 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)						

If additional space is needed check here and list on page 3

Volunteers are trained to provide high quality service and uphold the highest ethical standards.

To report unethical behavior to the IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205

Yes No Unsure Check appropriate box for each question in each section

Part III - Income - Last Year, Did You (or Your Spouse) Receive

- 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year?
2. (A) Tip Income?
3. (B) Scholarships? (Forms W-2, 1098-T)
4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
5. (B) Refund of state/local income taxes? (Form 1099-G)
6. (B) Alimony income?
7. (A) Self-Employment income? (Form 1099-MISC, cash)
8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
12. (B) Unemployment compensation? (Form 1099-G)
13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
14. (M) Income (or loss) from Rental Property?
15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify

Part IV - Expenses - Last Year, Did You (or Your Spouse) Pay

- 1. (B) Alimony? If yes, do you have the recipient's SSN? Yes No
2. Contributions to a retirement account? IRA (A) 401K (B) Roth IRA (B) Other
3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
5. (B) Medical expenses? (including health insurance premiums)
6. (B) Home mortgage interest? (Form 1098)
7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
8. (B) Charitable contributions?
9. (B) Child or dependent care expenses such as daycare?
10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
11. (A) Expenses related to self-employment income or any other income you received?

Part V - Life Events - Last Year, Did You (or Your Spouse)

- 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
4. (B) Have Eamed Income Credit (EIC) disallowed in a prior year? If yes, for which tax year?
5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
6. (B) Live in an area that was affected by a natural disaster? If yes, where?
7. (A) Receive the First Time Homebuyers Credit in 2008?
8. (B) Pay any student loan interest? (Form 1098-E)
9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much?
10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Catalog Number 52121E

www.irs.gov

Form 13614-C (Rev. 6-2014)

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code TEACHER'S STATE PENSION FUND 123 OAK STREET YOUR CITY, STATE ZIP		1 Gross distribution \$ 20,000.00	OMB No. 1545-0119 2014		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$ 20,000.00	Form 1099-R		
PAYER'S federal identification number 59-6XXXXXX		RECIPIENT'S identification number 383-XX-XXXX	2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.
RECIPIENT'S name TIBBIT JOHNSON		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ 1,700.00		
Street address (including apt. no.) 8201 HOLLY PLACE		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		7 Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
9a Your percentage of total distribution %	9b Total employee contributions \$	10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$ 300.00	13 State/Payer's state no. YS 2343235
Account number (see instructions)		14 State distribution \$ 20,000.00	15 Local tax withheld \$	16 Name of locality	17 Local distribution \$

Form **1099-R**

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. FIRST HOME MORTGAGE PO BOX 12 YOUR CITY, STATE ZIP		1 Date of identifiable event 11/13/2014	OMB No. 1545-1424 2014		Cancellation of Debt
		2 Amount of debt discharged \$ 13,000.00	Form 1099-C		
CREDITOR'S federal identification number 59-XXXXXXX	DEBTOR'S identification number 383-XX-XXXX	3 Interest if included in box 2 \$			Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
DEBTOR'S name TIBBIT JOHNSON		4 Debt description HOME MORTGAGE LOAN			
Street address (including apt. no.) 8201 HOLLY PLACE		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Identifiable event code	7 Fair market value of property \$		
Account number (see instructions)					

Form **1099-C**

(keep for your records)

www.irs.gov/form1099c

Department of the Treasury - Internal Revenue Service

Practice Scenario 3 Questions

- 3-1** Tibbit's debt is referred to as recourse debt. True False
- 3-2** Tibbit's adjusted gross income is \$33,007. True False
- 3-3** How should the workout with the mortgage lender be reported on Tibbit's tax return?
- A. Report the \$13,000 debt cancellation on Form 982, line 2 only.
 - B. Report the \$13,000 debt cancellation on Form 982, line 2, and Form 8949 and Schedule D.
 - C. Report the \$13,000 debt cancellation on Form 982, line 2, and on Form 1040, line 21.
 - D. Report the \$13,000 debt cancellation on Form 982, line 2, and line 10b.

Answers to Practice Scenarios

1-1: False

1-2: True

1-3: B

1-4: False

2-1: B

2-2: B

2-3: D

2-4: 0

2-5: B

3-1. True

3-2. False

3-3. D



Cancellation of Debt – Test Questions

Test Answer Sheet

Name _____

Instructions: Volunteers with an Advanced Certification may proceed to a certification for Cancellation of Debt (COD). COD is an optional specialty training and certification test provided electronically in a PDF format. Volunteers have two attempts to achieve a minimum of 80% to be certified.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

COD Scenario 1

1.	
2.	
3.	
4.	

COD Scenario 2

5.	
6.	
7.	
8.	

COD Scenario 3

9.	
10.	

COD Scenario 4

11.	
12.	
13.	
14.	
15.	

Total Answers Correct: _____

Total Questions: 15

Passing Score: 12 of 15

Directions

Scenarios 1 through 4 cover qualified principal residence indebtedness. The first three scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 1: Frank and Lonnette Snow

Interview Notes

- Frank and Lonnette received Form 1099-A reporting the foreclosure on their principal residence in 2014.
- At the time of foreclosure, they owed a balance of \$100,000 to the lender (Form 1099-A, box 2) and the FMV of the property was \$50,000 (Form 1099-A, box 4).
- Frank and Lonnette had owned and lived in their home since 2001.
- They moved out of their home on September 2, 2014.
- Their residence was never used as a business or as rental property.
- Frank and Lonnette have not filed for bankruptcy.
- Form 1099-A, box 5, was checked showing the Snows were personally liable for the debt.
- The debt has not been canceled by the creditor.

COD Scenario 1: Test Questions

1. Frank and Lonnette should report the foreclosure of their home on Form 8949 and Schedule D.
 - a. True
 - b. False
2. Since Frank and Lonnette have a recourse loan, they will report the sales price of their home using the fair market value (FMV).
 - a. True
 - b. False
3. A lender can use Form 1099-A to report both a foreclosure and cancellation of debt even if they occur in different years.
 - a. True
 - b. False
4. Since Frank and Lonnette have not filed for bankruptcy, their tax return is in scope for the VITA/TCE programs.
 - a. True
 - b. False

COD Scenario 2: Jacob and Tiffany Brown

Interview Notes

- Jacob and Tiffany owned and lived in their home since 2005.
- They could not make the mortgage payments and moved out of their home in March 2014.
- In August 2014, they received Form 1099-C from the mortgage company showing they were personally liable for the debt (box 5). Box 2 indicated canceled debt of \$30,000. Box 3 indicated no interest.
- The home was never used in a business or as rental property.
- The original mortgage of \$100,000 was used to purchase and was secured by the home.
- FMV on Form 1099-A, box 4 is \$60,000 and the Browns owed a balance of \$90,000 at the time of foreclosure.
- They did not file bankruptcy.

COD Scenario 2: Test Questions

5. Jacob and Tiffany's discharge of qualified principal residence indebtedness is an exclusion to the general rule that cancellation of debt is reported as income on the tax return.
 - a. True
 - b. False
6. Jacob and Tiffany have a _____ loan.
 - a. Home equity
 - b. Nonrecourse
 - c. Debt consolidation
 - d. Recourse
7. Exceptions to the general rule for reporting cancellation of debt as income include:
 - a. Certain student loans
 - b. Deductible debt
 - c. Bankruptcy
 - d. Both a and b
8. The sales price of Jacob and Tiffany's home on Form 8949 and Schedule D is:
 - a. \$30,000
 - b. \$60,000
 - c. \$90,000
 - d. \$100,000

COD Scenario 3: Marie Reeves

Interview Notes

- Marie owned and lived in her home since 2005.
- In 2012, Marie lost her job. She started working as a teacher's assistant in 2014.
- In March 2014, she was struggling to make the mortgage payment on her home. She worked out a loan modification agreement with her lender and was able to reduce her monthly mortgage payment by \$300, allowing her to stay in her home.
- Marie purchased the home in 2005 for \$175,000. In March 2014, at the time of her mortgage workout, the balance owed on her mortgage was \$150,000. Due to the real estate market in her area, the fair market value (FMV) of her home had declined to less than what she currently owed on the mortgage.
- Marie's lender issued a Form 1099-C, showing \$40,000 in box 2. Box 3 indicated no interest.
- Form 1099-C, box 5 is checked "yes" indicating that she has a recourse loan and is personally liable for the debt.
- The home was never used in a business or as rental property.
- The mortgage was used to purchase and was secured by the home.
- Marie has not filed for bankruptcy.

COD Scenario 3: Test Questions

9. How will Marie report the Form 1099-C information on her 2014 Form 1040?
 - a. She will report it on Form 982, lines 1e, 2, and 10b.
 - b. She will report the transaction on Form 8949, Schedule D, and Form 982.
 - c. She will report it on Form 982, lines 1e and 2.
 - d. She does not have to report it since there was no foreclosure on her home.
10. The basis of Marie's home is reduced by \$40,000.
 - a. True
 - b. False

COD Scenario 4: Ben and Mia Jones

Interview Notes

- Ben and Mia want to file a joint return.
- Mia lost her job in 2013 and they got behind on their mortgage payments.
- Mia started working for a flower shop in 2014 but they still struggled to meet all their financial obligations.
- Their mortgage company foreclosed on their principal residence in May 2014.
- The mortgage was used to purchase the home, and was secured by the home. There was no business or rental use of the property. Their records show the following information:
 - Fair Market Value: \$165,000
 - Purchase date: August 16, 2000
 - Cost basis: \$265,000
 - Mortgage balance at the time of foreclosure: \$235,000
- They did not file for bankruptcy.
- They want to know if they can exclude the canceled debt by the mortgage company under the qualified principal residence indebtedness exclusion.
- Ben and Mia will not itemize for 2014.
- If they have a refund, they want the check mailed to them.



Intake/Interview & Quality Review Sheet

You will need:

- Tax information such as Forms W-2, 1099, 1098.
- Social security cards or ITIN letters for all persons on your tax return.
- Picture ID (such as valid driver's license) for you and your spouse.

• Please complete pages 1-3 of this form.

- You are responsible for the information on your return. Please provide complete and accurate information.
- If you have questions, please ask the IRS certified volunteer preparer.

Part I - Your Personal Information

1. Your first name BEN	M.I. JONES	Last name JONES	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name MIA	M.I. JONES	Last name JONES	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 1225 10TH STREET	Apt #	City YOUR CITY	State YS
4. Telephone number(s) YOUR PHONE #	Email address (optional) NONE		

5. Your Date of Birth **08/19/1968** 6. Your job title **RETIRED MILITARY** 7. Last year, were you: a. Full time student Yes No

8. Your spouse's Date of Birth **08/15/1975** 9. Your spouse's job title **FLORIST** b. Totally and permanently disabled Yes No c. Legally blind Yes No

10. Last year, was your spouse: a. Full time student Yes No c. Legally blind Yes No

11. Can anyone claim you or your spouse on their tax return? Yes No Unsure

12. Have you or your spouse: a. Been a victim of identity theft? Yes No b. Adopted a child? Yes No

Part II - Marital Status and Household Information

1. As of December 31 of last year, Single (This includes registered domestic partnerships, civil unions, or other formal relationships under state law) were you: Married a. Did you live with your spouse during any part of the last six months of 2014? Yes No

Divorced or Legally Separated b. Was your marriage recognized under the laws of the state(s) you are filing in? Yes No Unsure

Widowed c. Date of final decree or separate maintenance agreement _____

2. List the names below of:

- **everyone** who lived with you last year (other than you or your spouse)
- **anyone** you supported but did not live with you last year

Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/14 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of income? (yes/no)	Did this person have less than \$3950 of support for this person? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					

If additional space is needed check here and list on page 3

To be completed by a Certified Volunteer Preparer

Volunteers are trained to provide high quality service and uphold the highest ethical standards.

To report unethical behavior to the IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205

Yes No Unsure Check appropriate box for each question in each section

Part III - Income - Last Year, Did You (or Your Spouse) Receive

- 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? 1
2. (A) Tip Income?
3. (B) Scholarships? (Forms W-2, 1098-T)
4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
5. (B) Refund of state/local income taxes? (Form 1099-G)
6. (B) Alimony income?
7. (A) Self-Employment income? (Form 1099-MISC, cash)
8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
12. (B) Unemployment compensation? (Form 1099-G)
13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
14. (M) Income (or loss) from Rental Property?
15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify

Part IV - Expenses - Last Year, Did You (or Your Spouse) Pay

- 1. (B) Alimony? If yes, do you have the recipient's SSN? Yes No IRA (A) 401K (B) Roth IRA (B) Other
2. Contributions to a retirement account?
3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
5. (B) Medical expenses? (including health insurance premiums)
6. (B) Home mortgage interest? (Form 1098)
7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
8. (B) Charitable contributions?
9. (B) Child or dependent care expenses such as daycare?
10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
11. (A) Expenses related to self-employment income or any other income you received?

Part V - Life Events - Last Year, Did You (or Your Spouse)

- 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year?
5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
6. (B) Live in an area that was affected by a natural disaster? If yes, where?
7. (A) Receive the First Time Homebuyers Credit in 2008?
8. (B) Pay any student loan interest? (Form 1098-E)
9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much?
10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Catalog Number 52121E

www.irs.gov

Form 13614-C (Rev. 6-2014)

a Employee's social security number 384-XX-XXXX		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 38-6XXXXXX		1 Wages, tips, other compensation 17,000.00	2 Federal income tax withheld 1,090.00		
c Employer's name, address, and ZIP code SPRING FLOWER SHOP 5062 HASLET ST. YOUR CITY, STATE ZIP		3 Social security wages 17,000.00	4 Social security tax withheld 1,054.00		
		5 Medicare wages and tips 17,000.00	6 Medicare tax withheld 246.50		
		7 Social security tips	8 Allocated tips		
d Control number		9	10 Dependent care benefits		
e Employee's first name and initial Last name MIA JONES 1225 10TH STREET YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b		
		14 Other		12c	
f Employee's address and ZIP code				12d	
15 State Employer's state ID number YS 38-6XXXXXX	16 State wages, tips, etc. 17,000.00	17 State income tax 580.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2014** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code DFAS PO BOX 8899 YOUR CITY, STATE ZIP		1 Gross distribution \$ 11,500.00	OMB No. 1545-0119 2014 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
PAYER'S federal identification number 30-2XXXXXX		2a Taxable amount \$ 11,500.00	2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
RECIPIENT'S name BEN JONES	RECIPIENT'S identification number 385-XX-XXXX	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ 640.00		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.) 1225 10TH STREET		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		7 Distribution code(s) 7	8 Other \$ %		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	9a Your percentage of total distribution %	9b Total employee contributions \$		
Account number (see instructions)	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$		
	15 Local tax withheld \$	16 Name of locality	17 Local distribution \$		

Form **1099-R** www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. STATEWIDE MORTGAGE COMPANY 3434 BROADWAY YOUR CITY, STATE ZIP		OMB No. 1545-0877 2014 Form 1099-A	
LENDER'S federal identification number 38-9XXXXXX	BORROWER'S identification number 385-XX-XXXX	1 Date of lender's acquisition or knowledge of abandonment 5/15/2014	2 Balance of principal outstanding \$ 235,000.00
BORROWER'S name BEN AND MIA JONES		3 <input type="checkbox"/>	4 Fair market value of property \$ 165,000.00
Street address (including apt. no.) 1225 10TH STREET		5 If checked, the borrower was personally liable for repayment of the debt <input checked="" type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Description of property 125 OAK STREET YOUR CITY, STATE ZIP	
Account number (see instructions)			

Acquisition or Abandonment of Secured Property

Copy B For Borrower
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.

Form **1099-A** (keep for your records) www.irs.gov/form1099a Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. STATEWIDE MORTGAGE COMPANY 3434 BROADWAY YOUR CITY, STATE ZIP		OMB No. 1545-1424 2014 Form 1099-C	
CREDITOR'S federal identification number 38-9XXXXXX	DEBTOR'S identification number 385-XX-XXXX	1 Date of identifiable event 5/15/2014	2 Amount of debt discharged \$ 70,000.00
DEBTOR'S name BEN AND MIA JONES		3 Interest if included in box 2 \$	4 Debt description HOME MORTGAGE LOAN
Street address (including apt. no.) 1225 10TH STREET		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Identifiable event code	7 Fair market value of property \$
Account number (see instructions)			

Cancellation of Debt

Copy B For Debtor
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

COD Scenario 4: Test Questions

Directions

Using the interview notes, taxpayer documents, and reference materials, prepare Ben and Mia's tax return through line 22 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

11. What is the sales price of the home shown on Part II of Form 8949? \$_____
12. What is the long-term capital gain or loss reported on Schedule D?
 - a. (\$100,000)
 - b. \$0
 - c. \$70,000
 - d. \$165,000
13. What is the total amount of canceled debt excluded from gross income on Form 982, Part I, line 2?
 - a. \$0
 - b. \$70,000
 - c. \$165,000
 - d. \$235,000
14. Which of the following would cause Ben and Mia's return to be out of scope?
 - a. They took out a home equity loan in 2007 to vacation in London.
 - b. Ben and Mia filed for bankruptcy.
 - c. They had an interest amount in box 3 of their Form 1099-C.
 - d. All of the above.
15. What is Ben & Mia's total income from Form 1040, Line 22? \$_____



Cancellation of Debt – Retest Questions

Retest Answer Sheet

Name _____

Instructions: Volunteers with an Advanced Certification may proceed to a certification for Cancellation of Debt (COD). COD is an optional specialty training and certification test provided electronically in a PDF format. Volunteers have two attempts to achieve a minimum of 80% to be certified.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

COD Scenario 1

1.	
2.	
3.	
4.	

COD Scenario 2

5.	
6.	
7.	
8.	

COD Scenario 3

9.	
10.	

COD Scenario 4

11.	
12.	
13.	
14.	
15.	

Total Answers Correct: _____

Total Questions: 15

Passing Score: 12 of 15

Directions

The first three scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 1: Frank and Lonnette Snow

Interview Notes

- Frank and Lonnette received Form 1099-A reporting the foreclosure on their principal residence in 2014.
- At the time of foreclosure, they owed a balance of \$100,000 to the lender (Form 1099-A, box 2) and the FMV of the property was \$50,000 (Form 1099-A, box 4).
- Frank and Lonnette had owned and lived in their home since 2001.
- They moved out of their home on September 2, 2014.
- Their residence was never used as a business or as rental property.
- Frank and Lonnette have not filed for bankruptcy.
- Form 1099-A, box 5, was checked showing the Snows were personally liable for the debt.
- The debt has not been canceled by the creditor.

COD Scenario 1: Retest Questions

1. Frank and Lonnette will report the foreclosure of their home using _____.
 - a. Form 982 only
 - b. Schedule D only
 - c. Form 8949 and Schedule D
 - d. Form 982, Form 8949, and Schedule D
2. The sales price of Frank and Lonnette's home on Form 8949 and Schedule D is \$_____.
 - a. \$30,000
 - b. \$50,000
 - c. \$100,000
 - d. \$150,000
3. Can the lender report both a foreclosure and cancellation of debt on Form 1099-C if they occur in the same year?
 - a. Yes
 - b. No
4. If Frank and Lonnette had filed for bankruptcy, their tax return would be in scope for the VITA/TCE programs.
 - a. Yes
 - b. No

COD Scenario 2: Jacob and Tiffany Brown

Interview Notes

- Jacob and Tiffany owned and lived in their home since 2005.
- They could not make the mortgage payments and moved out of their home in March 2014.
- In August 2014, they received Form 1099-C from the mortgage company showing they were personally liable for the debt (box 5). Box 2 indicated canceled debt of \$30,000. Box 3 indicated no interest.
- The home was never used in a business or as rental property.
- The original mortgage of \$100,000 was used to purchase and was secured by the home.
- FMV on Form 1099-A, box 4 is \$60,000 and the Browns owed a balance of \$90,000 at the time of foreclosure.
- They did not file bankruptcy.

COD Scenario 2: Retest Questions

5. Which of the following is an exclusion to the general rule that cancellation of debt is income to the taxpayer?
 - a. Discharge of debt through bankruptcy
 - b. Discharge of qualified principal residence indebtedness
 - c. Discharge of debt of an insolvent taxpayer
 - d. All of the above
6. If Jacob and Tiffany have a non-recourse loan with their lender, are they personally liable for the debt?
 - a. Yes
 - b. No
7. Which of the following is **not** an exception to the general rule that cancellation of debt is income to the taxpayer?
 - a. Deductible debt
 - b. Bequests
 - c. Insolvency
 - d. Certain student loans
8. The sales price of Jacob and Tiffany's home on Form 8949 and Schedule D is \$_____

COD Scenario 3: Marie Reeves

Interview Notes

- Marie owned and lived in her home since 2005.
- In 2012, Marie lost her job. She started working as a teacher's assistant in 2014.
- In March 2014, she was struggling to make the mortgage payment on her home. She worked out a loan modification agreement with her lender and was able to reduce her monthly mortgage payment by \$300, allowing her to stay in her home.
- Marie purchased the home in 2005 for \$175,000. In March 2014, at the time of her mortgage workout, the balance owed on her mortgage was \$150,000. Due to the real estate market in her area, the fair market value (FMV) of her home had declined to less than what she currently owed on the mortgage.
- Marie's lender issued a Form 1099-C, showing \$40,000 in box 2. Box 3 indicated no interest.
- Form 1099-C, box 5 is checked "yes" indicating that she has a recourse loan and is personally liable for the debt.
- The home was never used in a business or as rental property.
- The mortgage was used to purchase and was secured by the home.
- Marie has not filed for bankruptcy.

COD Scenario 3: Retest Questions

9. Line ____ of Form 982 is used to report the reduction in basis of Marie's home.
 - a. 1e
 - b. 2
 - c. 10a
 - d. 10b
10. The reduction in basis reported on Form 982 is \$_____.
 - a. \$300
 - b. \$25,000
 - c. \$40,000
 - d. \$110,000

COD Scenario 4: Retest Questions

Directions

Refer to the scenario information for Ben and Mia Jones beginning on page 1-33.

Using the interview notes, taxpayer documents, and reference materials, prepare Ben and Mia's tax return through line 22 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

11. What is the sales price of the home shown on Part II of Form 8949?
 - a. \$70,000
 - b. \$165,000
 - c. \$235,000
 - d. \$265,000

12. What is the long-term capital gain or loss reported on Schedule D? \$_____

13. What is the total amount of canceled debt Ben and Mia can exclude from gross income on Form 982, Part I, line 2? \$_____

14. Ben and Mia's return would be out of scope for the VITA/TCE programs if they filed for bankruptcy.
 - a. True
 - b. False

15. What is Ben and Mia's total income on Form 1040, Line 22?
 - a. \$11,500
 - b. \$17,000
 - c. \$28,500
 - d. \$98,500

Link & Learn Taxes

Link & Learn Taxes is web-based training designed specifically for VITA/TCE volunteers. Each volunteer's ability to prepare complete and accurate returns is vital to the credibility and integrity of the program. Link & Learn Taxes, as part of the complete volunteer training kit, provides the path to achieving this high level of quality service.

Link & Learn Taxes and the printed technical training kit, Publication 4480, work together to help volunteers learn and practice.

Link & Learn Taxes for 2014 includes:

- Access to all VITA/TCE courses
- Easy identification of the VITA/TCE courses with the course icons
 - As you progress through a lesson, the content for Basic, Advanced, Military, or International will display, depending on the level of certification you selected
- PowerPoint presentations that can be customized to fit your classroom needs
- VITA/TCE Central to provide centralized access for training materials and reference links
- The Practice Lab
 - Gives volunteers practice with an early version of the IRS-provided tax preparation software
 - Lets volunteers complete workbook problems from Publication 4491W
 - Lets volunteers prepare test scenario returns for the test/retest



Go to www.irs.gov, type “Link & Learn” in the Keyword field and click Search. You’ll find a detailed overview and links to the courses.

FSA (Facilitated Self Assistance) empowers taxpayers to prepare their own return with the assistance of a certified volunteer. Taxpayers complete their own return using interview-based software supplied by leaders in the tax preparation industry. Volunteers assist taxpayers with tax law and software questions.

Virtual VITA allows partners to initiate the intake process for taxpayers in one location, while utilizing a certified volunteer to prepare the return in an entirely different location. By incorporating this flexibility, partners can provide taxpayers with more convenient locations to file their taxes.

For more information contact your SPEC Relationship Manager to see if you should start a FSA or Virtual VITA site in your community.



www.irs.gov

Your online resource for volunteer and taxpayer assistance

The Volunteer Resource Center (Keyword: Volunteer Resource Center)

- Hot topics for volunteers and partners
- Site Coordinator's Corner
- Volunteer Tax Alerts
- Volunteer Training Resources
- EITC Information for Partners
- e-file Materials and Outreach Products

Tax Information for Individuals (Keyword: Individuals)

- 1040 Central (What's new this filing season)
- Where's My Refund
- EITC Assistant - Available in English and Spanish
- Tax Trails for answers to common tax questions
- Alternative Minimum Tax (AMT) Assistant
- Interactive Tax Assistant (ITA)

and much more!

Your direct link to tax information 24/7

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