



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224
August 23, 2000

Number: **INFO 2000-0234**

Release Date: 9/30/2000

CC:PA:APJP:BR 1:LCNash
COR-111047-00
UIL: 6050P.00-00



This is in response to your request for assistance regarding whether [REDACTED] must file a Form 1099-C when [REDACTED] sells an insolvent corporation's debenture to a shareholder of the corporation.

Under §108(e)(4) of the Internal Revenue Code and §1.108-2(a) of the Income Tax Regulations, the acquisition of outstanding indebtedness by a person related to the debtor from a person who is not related to the debtor results in the realization by the debtor of income from the cancellation of indebtedness. In general, persons are related if they are related within the meaning of § 267(b) or 707(b). See §1.108-2(d)(2).

Section 1.6050P-1(d)(5) states that:

No reporting is required under this section in the case of a deemed discharge of indebtedness under section 108(e)(4) (relating to the acquisition of an indebtedness by a person related to the debtor), unless the disposition of the indebtedness by the creditor was made with a view to avoiding the reporting requirements of this section.

[REDACTED] sale of the corporation's debenture to a shareholder of the corporation may result in income from a deemed discharge of indebtedness if the shareholder is related to the corporation for purposes of §1.108-2(d). We do not have sufficient information to determine if the shareholder is a related party.

Therefore, assuming [REDACTED] was not attempting to avoid the reporting requirements of §1.6050P-1, [REDACTED] does not have a reporting requirement under §6050P on the sale of the corporation's debenture to a shareholder of the corporation who is a related party.

COR-111047-00

In addition, if a shareholder is not a related party, [REDACTED] does not have a reporting requirement under §6050P because [REDACTED] has sold the note and not discharged any indebtedness. Presumably the shareholder purchasing the note has the right to collect the full amount of the indebtedness from the corporate debtor.

In conclusion, whether the purchasing shareholder is a related party or not, [REDACTED] is not required to file a Form 1099-C in this instance.

Thank you for your inquiry. If you have further questions, please contact Laura C. Nash at (202)-622-4910.

Sincerely,

By _____
George J. Blaine
Chief, Branch 1
Administrative Provisions and Judicial Practice