



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

OFFICE OF THE CHIEF COUNSEL

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Dear _____ :

This letter responds to your request for information dated June 29, 2009, regarding reporting cancellation of indebtedness under section 6050P of the Internal Revenue Code (Code). Specifically, you request information concerning the reporting obligations under section 1.6050P-1(b)(2) for debt that was cancelled pursuant to a settlement agreement signed by a state appointed receiver and a group of creditors, the effect of which was the elimination of the debtors' obligations to the creditors. We are pleased to provide the following general information.

Section 6050P of the Code requires that an applicable entity report any discharges (in whole or in part) of indebtedness of any person in excess of \$600.00. Applicable entities include banks, credit unions and "any organization a significant trade of business of which is the lending of money." See section 6050P(c). Section 1.6050P-1(d) of the Income Tax Regulations (regulations) provides various exceptions to reporting cancellation of indebtedness under section 6050P, including certain bankruptcy discharges, interest and nonprincipal amounts in lending transactions.

Section 1.6050P-1(a)(1) of the regulations provides that solely for purposes of the reporting requirements of section 6050P of the Code, a discharge of indebtedness is deemed to have occurred if, and only if, one of eight identifiable events takes place. In the absence of one of these eight events, a Form 1099-C, "Cancellation of Debt," does not have to be filed. Section 1.6050P-1(b)(2)(i) provides the exclusive list of eight identifiable events that trigger the reporting requirement under section 6050P.

We call your attention to three identifiable events. Section 1.6050P-1(b)(2)(i)(B) of the regulations provides that an identifiable event is a cancellation or extinguishment of an indebtedness that renders a debt unenforceable in a receivership, foreclosure, or similar

proceeding in a federal or state court, as described in section 368(a)(3)(A)(ii) (other than a discharge described in paragraph (b)(2)(i)(A) of this section). If the debts were rendered unenforceable in a receivership, then the applicable entities must file the returns required under section 6050P.

Section 1.6050P-1(b)(2)(i)(F) of the regulations provides that an identifiable event is a discharge of indebtedness pursuant to an agreement between an applicable financial entity and a debtor to discharge indebtedness at less than full consideration. If, however, the agreement to discharge debt is not between an applicable financial entity and a debtor, then section 1.6050P-1(b)(2)(i)(F) of the regulations does not apply.

Section 1.6050P-1(b)(2)(i)(G) of the regulations provides that an identifiable event is a discharge of indebtedness pursuant to a decision by the creditor, or the application of a defined policy of the creditor, to discontinue collection activity and discharge debt. According to section 1.6050P-1(b)(2)(iii), a creditor's defined policy includes both a written policy and the creditor's established business practice. If the cancellation of indebtedness was not the result of a written policy or an established business practice of a creditor, then section 1.6050P-1(b)(2)(i)(G) of the regulations does not apply.

This letter invites your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2009-1, §2.04, 2009-1 IRB 1 (Jan. 5, 2009). If you have any additional questions, please contact our office at

Sincerely,

James Coffey Gibbons
Branch Chief
(Procedure & Administration)