

March 2009

DCSD **Debt Counsel for Seniors & the Disabled**



IT'S TAX SEASON! Your creditor may “write off” all or part of the debt it claims that you owe, and report it as a tax loss to the IRS using a 1099-C. Because you never paid the debt claim, the IRS can treat cancellation of a debt as income you receive. The IRS may require you to report this as income for the tax year the debt was written off even though you never actually received the money. Thus, you may receive a 1099-C form, which is a form the Creditor files with the IRS when a creditor is going to “write off” the remaining unpaid portion of your debt. If the debt is for \$600 or more, the creditor must send you the 1099-C by January 31st and to the IRS by February 28th of the tax year in which the debt was discharged. If you received a 1099-C form, you must report the amount of the canceled debt as income to the IRS. The amount you will enter is the amount shown in Box 2 of the 1099-C form.

The IRS recognizes five situations where a cancelled debt does not have to be reported as income:

1. **Bankruptcy** – the debt was already discharged through a bankruptcy proceeding.
2. **Insolvency** – your total debts exceed your total assets at the time you debt was deemed non-collectable.
3. **Indebtedness is due to a qualified farm expense.**
4. **Indebtedness is due to certain real property business losses.**
5. **Discharge of your debt was treated as a gift. (extremely rare)**

If you are insolvent, you need to explain this to the IRS in one of two ways.

1. **Fill out the IRS FORM 982: Reduction of Tax Attributes Due to Discharge of Indebtedness, OR**
2. **Attaching a detailed letter to your tax return explaining the calculation of your total Debts and assets.**

You are deemed to be insolvent if your total liabilities (debts) are greater than your total assets. For example, if your total liabilities are \$8,000 and your total assets at the time are \$6,000 you are insolvent in the amount of \$2,000. To determine the value of your assets, use the fair market value rather than what you paid for them or what you think they are worth. We have an insolvency worksheet packet and the IRS form “Reduction of Tax Attributes Due to Discharge of Indebtedness” in the office. Please call 1- 800- 992- 3275 and request a copy be sent to you.

The name of the creditor may not be readily recognizable on the 1099-C form. The creditor may have sold the debt to a third party collection agency or the name of the parent company could be listed as the creditor.

You cannot claim that you never received a 1099-C form in the mail. Even if you did not receive one, you are expected to recognize a capital gain.

Individuals receiving public benefits and public housing should be sure to check if your updated income will exclude you from the benefits you are receiving.

This is not meant to be tax advice. Always check with your tax preparer.

If you have a family member or a friend who just recently lost their job, please let them know about a new program to assist the unemployed. AAUD – Attorney Assistance for the Unemployed Debtor.

AAUD is a legal service program for those individuals whose only income is from unemployment compensation or workman’s compensation, and who do not have sufficient income to pay their unsecured debt. It is an attorney supervised debt assistance program that helps stop harassing telephone calls and threatening letters from your unsecured creditors such as credit card companies, collection agencies, doctors and/or hospitals.

Please call Attorney Assistance for the Unemployed Debtor at 1-800-992-3275 Ext 1304 or visit our website at www.myaaud.com.

NEED HELP WITH YOUR TAXES? From February 1 through April 15 each year, the AARP Tax-Aide program, which is a free and confidential tax assistance service is available to help two million low and moderate income taxpayers prepare basic tax forms. Free one on one counseling and assistance on the telephone and Internet are available. To find a local AARP Tax-Aide, please call 1-888-227-7669 or visit www.aarp.org/taxaide.

NEW GOVERNMENT WEBSITE CAN HELP YOU KEEP TRACK OF THE MONEY BEING SPENT UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT

To watch how your money is being spent under the American Recovery and Reinvestment Act visit the new website –“ www.recovery.gov”

REMINDER TO OUR DCSD CLIENTS:

If you are sending an attorney letter or collection letter and would like to add your comments, please write your comments on a separate sheet and attach it to the correspondence. You may use the form below:

Name of Client: _____

Client ID #: _____

Explanation: _____
