

Canceled Debt - Is it taxable?

You may have taxable income...

If you borrow money from a commercial lender and the lender later cancels or forgives the debt, you may have to include the cancelled amount in your taxable income. You were not required to include the borrowed money on your taxes because you still had an obligation to repay the loan. When that obligation is forgiven, the amount you received as a loan is reportable as income because you no longer have an obligation to repay the lender.

EXAMPLE

You borrow \$10,000 and default on the loan after paying back \$2,000. If the lender decides not to collect the remaining debt from you, there is a cancellation of debt of \$8,000, which generally is taxable income to you.

HOW DO YOU KNOW

The lender is usually required to report the amount of cancelled debt to both you and the IRS on a Form 1099-C, Cancellation of Debt. However, just because you don't receive a Form 1099-C, doesn't mean that you don't have cancellation of debt income.

SPECIAL SITUATIONS

Cancellation of debt income is not always taxable. There are some exceptions. The most common situations when cancellation of debt income is not taxable involve:

- Bankruptcy
- Insolvency
- Loans where the borrower is not personally liable
- Some loans forgiven in calendar years 2007 through 2012 to purchase or improve a principal residence

WHAT YOU SHOULD DO

Contact a tax professional, it is normally easier for a tax expert to decide if you need to report your cancellation of debt income or if an exception applies.

If you have already filed your taxes but forgot to include your cancellation of debt income or if you included your cancellation of debt income but you are not sure you did so correctly, we can help you determine whether the correct amounts were reported and help you amend your return, if necessary.

Last Revised: October 2015

 [Printable Trifold Pamphlet](#)

Printed: October 16, 2021

<http://www.indianalegalservices.org/node/808/canceled-debt-it-taxable>

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