



TO APPLY FOR LEGAL ASSISTANCE WITH A TAX PROBLEM, CONTACT:

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Member Agency



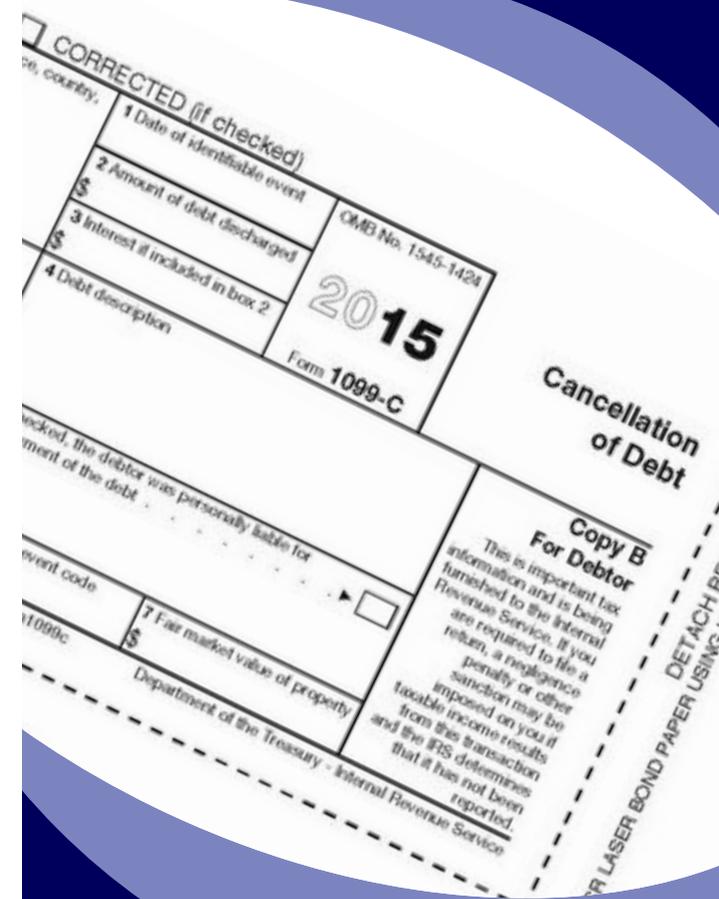
Indiana Legal Services does not discriminate against any person on the basis of race, color, national origin, disability, or age.

The Bloomington office serves tax clients statewide and non-tax clients in Bartholomew, Brown, Clay, Greene, Jackson, Lawrence, Monroe, Morgan, Orange, Owen, Parke, Putnam, Sullivan, and Vigo Counties.

If you have a non-tax problem and are located in a county outside of our service area, please visit our website or call our toll free number to find the office that serves you.

www.indianalegalservices.org

1-800-869-0212



**Did a bank forgive a debt that you owed?
Did you lose your home to foreclosure?**

**Indiana Legal Services
LOW INCOME TAXPAYER CLINIC**

You may have taxable income...

CANCELLATION OF DEBT 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.



LOW INCOME TAXPAYER CLINIC

The Indiana Legal Services Low Income Taxpayer Clinic (LITC) provides free legal assistance to Indiana taxpayers involved in disputes with IRS.

Examples of disputes with IRS include whether you qualify for Child Tax Credits, the Earned Income Tax Credit, the ability to claim Head of Household or dependents, whether you should be responsible for your spouse's or ex-spouse's tax problems, and whether you owe tax on the amount of a debt that is forgiven.

We can also help you if you have received a notice from the IRS or the IRS has already started collection actions, you're facing an audit or exam, or you are a victim of identity theft.

The Low Income Taxpayer Clinic is not part of the IRS, but does receive funds from the IRS through the LITC grant program. Participation in an LITC program does not impact your rights before the IRS. Also, while the LITC can help you file a tax return as part of a dispute with the IRS, we are not a tax preparation service and we do not generally prepare tax returns. To find a free tax preparation site near you, please call 1-800-906-9887.