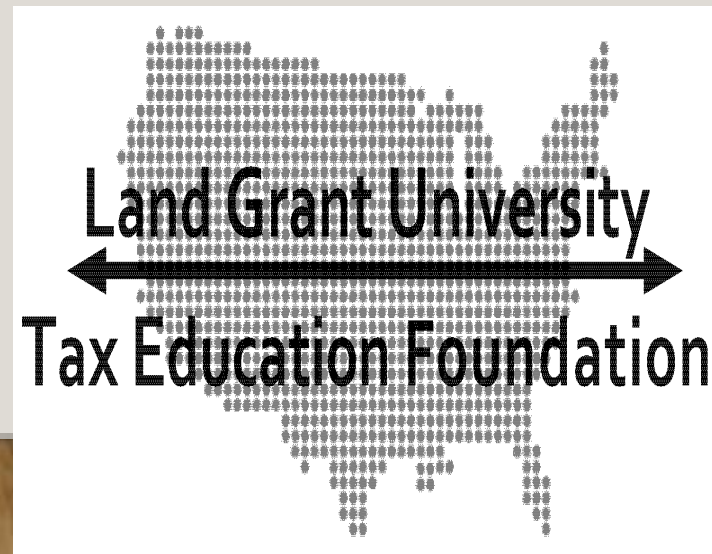


2020 NATIONAL INCOME TAX WORKBOOK

CHAPTER 1: FINANCIAL DISTRESS



CHAPTER ISSUES

Foreclosures
and
Repossession

Cancellation-
of-Debt
Income

Abandonments

Debt-Related
Information
Returns

Bad-Debt
Deduction

LEARNING OBJECTIVES

PG. I

Explain	Explain the tax consequences of a foreclosure
Understand	Understand when to report cancellation-of-debt income and when that income can be excluded
Report	Report the reduction of tax attributes resulting from a discharge of indebtedness
Understand	Understand the tax consequences of an abandonment
Explain	Explain the information reported on Form 1099-A, Acquisition or Abandonment of Secured Property
Explain	Explain the information reported on Form 1099-C, Cancellation of Debt
Know	Know when a taxpayer can deduct a business bad debt
Know	Know when a taxpayer can deduct a nonbusiness bad debt



This Photo by Unknown Author is licensed under CC BY-SA

FORECLOSURES & REPOSSESSIONS

ISSUE I

PGS 2-4



REPOSSESSIONS

PG. 2

I.R.C § 108 – Recognition of Debt OR Excluded from Income

- Treated as sale
- Recognizes Gain or Loss
- Recourse Loan – Personally liable
- Amount Realized is the SMALLER OF:
 - the outstanding debt immediately before the transfer reduced by any amount taxpayer is personally liable for immediately after the transfer OR
 - the FMV of the transferred property

COMMUNITY BANK V. COMMISSIONER, 79 T.C.
789,792 (1982), AFFD. 819 F.2D940 (9TH CIR. 1987)

Sale Price of property at foreclosure = FMV

EXAMPLE 1.1 GAIN ON FORECLOSURE

PG 2

- 2015 Lorna bought land \$ 100,000
- Purpose – build primary residence
- \$ 20,000 down and financed \$ 80,000
- Personally liable and land secured loan
- 2020 loan balance \$ 65,000 & FMV of land \$ 110,000
- 2020 Foreclosure – bank sold land for \$ 110,000 and applied to balance owed
 - Lorna received \$ 45,000 (excess from sale)
- What's Lorna's **GAIN** & Realized amount?
 - \$ 10,000 (FMV \$ 110,000 – basis \$ 100,000)
 - \$ 110,000 (\$ 65,000 loan balance + \$ 45,000 proceeds)



EXAMPLE 1.2 LOSS ON FORECLOSURE

PG 2

Same facts as 1.1 EXCEPT

- FMV declined to \$ 60,000
- 2020 Foreclosure – bank sold land for \$ 60,000 and applied to balance owed
 - Lorna OWES remaining \$ 5,000
- Bank forgave the \$ 5,000
 - Lorna has cancellation-of-debt income
- What's Lorna's LOSS?
 - \$ 40,000
- Is Lorna's LOSS deductible?
 - NO – personal asset

FIGURE 1.1 Worksheet for Foreclosures and Repossessions

Table 1-1. **Worksheet for Foreclosures and Repossessions**

Keep for Your Records



Part 1. Complete Part 1 only if you were personally liable for the debt (even if none of the debt was canceled). Otherwise, go to Part 2.	
1. Enter the amount of outstanding debt immediately before the transfer of property reduced by any amount for which you remain personally liable immediately after the transfer of property	_____
2. Enter the fair market value of the transferred property	_____
3. Ordinary income from the cancellation of debt upon foreclosure or repossession.* Subtract line 2 from line 1. If less than zero, enter zero. Next, go to Part 2	=====
Part 2. Gain or loss from foreclosure or repossession.	
4. Enter the smaller of line 1 or line 2. If you didn't complete Part 1 (because you weren't personally liable for the debt), enter the amount of outstanding debt immediately before the transfer of property	_____
5. Enter any proceeds you received from the foreclosure sale	_____
6. Add line 4 and line 5	_____
7. Enter the adjusted basis of the transferred property	_____
8. Gain or loss from foreclosure or repossession. Subtract line 7 from line 6	=====
* The income may not be taxable. See chapter 1 for more details.	

NONRECOURSE LOAN (NOT PERSONALLY LIABLE)

PG.3

- Amount realized = full amount of outstanding debt immediately before transfer
- FMV can be less than outstanding debt
- No cancellation-of-debt
- Repossession satisfies debt

Example 1.3:

- Lorna's facts are the same except she is not personally liable
- Balance due \$ 65,000
- FMV \$ 60,000 at foreclosure
- \$ 35,000 realized AND nondeductible loss

BUSINESS PROPERTY

PG 4

-
- Gain/Loss = Capital OR
 - Ordinary Income/Loss
- § 1231 = real or depreciable property held < 1 year
 - Used in trade or business
 - Loss = Ordinary
 - Gain = Ordinary up to amount of non-recaptured § 1231 from previous years
 - Balance = Long-term capital gain

POLLING
QUESTION I

A Foreclosure and
Repossession have the
same tax treatment?

True or False?

CANCELLATION- OF-DEBT INCOME

ISSUE 2

PGS 4-18



CANCELLATION-OF- DEBT (COD) PG 4

- Debt is forgiven rather than paid
- Taxpayer has an increase in wealth – obligation to repay is reduced without an equal cash payment
- I.R.C. § 61(a)(11) – borrower required to include debt canceled or forgiven in gross income
- COD = outstanding balance – negotiated amount to satisfy what's owed
- Repossession – FMV = cash payment to borrower

EXAMPLE 1.4

- 2018 Don borrowed \$ 20,000 to buy \$ 23,000 personal truck
- 2020 bank repossessed the truck
- FMV at repossession \$ 12,000
- Loan balance at repossession \$ \$ 15,000
- How much is Don's non-deductible loss?
 - \$ 11,000 (\$ 12,000 FMV - \$ 23,000 basis)
- How much is Don's COD?
 - \$ 3,000 (\$ 15,000 loan balance - \$ 12,000 FMV)

-
- Gift
 - Deductible Debt (I.R.C. § 108(e)(2))
 - Example 1.5 Lost Deduction
 - Purchase Price Reduction
 - Example 1.6 Price Reduction
 - Apply before I.R.C. § 108(a)(1)
 - No reduction of tax attributes

CROSS – REFERENCE

PG 5

Student Loan Debt

EXCLUSIONS FROM COD INCOME -- I.R.C. § 108

PG 5 - 6

1. Bankruptcy 108(a)(1)(A) – Chapter 11
 - a. Granted by Court
 - b. Does not apply to Partner in a Partnership
 - c. Does not apply to Owner of Grantor Trust
 - d. Does not apply to Disregarded Entity
2. Insolvency 108(a)(1)(B)

INSOLVENCY – I.R.C. § 108(A)(1)(B)

PG 6

- Liabilities > FMV of assets immediately before discharge
- Individually Insolvent
- NOT Owner of Insolvent Entity
- Carlson v. Commissioner, 116 T.C. 87 (2001) – assets exempt under state law, INCLUDED in insolvency calculation
- Liabilities:
 - Entire amount of recourse debt
 - Nonrecourse debt LESS THAN FMV of property securing debt
 - Nonrecourse debt in excess of FMV of property subject to nonrecourse debt, to the extent nonrecourse debt in excess of the FMV of property subject to debt is forgiven

FIGURE 1.2 Insolvency Worksheet

Insolvency Worksheet

Keep for Your Records



Date debt was canceled (mm/dd/yy)		
Part I. Total liabilities immediately before the cancellation (don't include the same liability in more than one category)		
Liabilities (debts)		Amount Owed Immediately Before the Cancellation
1. Credit card debt	\$	
2. Mortgage(s) on real property (including first and second mortgages and home equity loans) (mortgage(s) can be on main home, any additional home, or property held for investment or used in a trade or business)	\$	
3. Car and other vehicle loans	\$	
4. Medical bills owed	\$	
5. Student loans	\$	
6. Accrued or past-due mortgage interest	\$	
7. Accrued or past-due real estate taxes	\$	
8. Accrued or past-due utilities (water, gas, electric, etc.)	\$	
9. Accrued or past-due child care costs	\$	
10. Federal or state income taxes remaining due (for prior tax years)	\$	
11. Judgments	\$	
12. Business debts (including those owed as a sole proprietor or partner)	\$	
13. Margin debt on stocks and other debt to purchase or secured by investment assets other than real property	\$	
14. Other liabilities (debts) not included above	\$	
15. Total liabilities immediately before the cancellation. Add lines 1 through 14.	\$	

FIGURE 1.2 Insolvency Worksheet (Continued)

Part II. Fair market value (FMV) of assets owned immediately before the cancellation (don't include the FMV of the same asset in more than one category)	
Assets	FMV Immediately Before the Cancellation
16. Cash and bank account balances	\$
17. Real property, including the value of land (can be main home, any additional home, or property held for investment or used in a trade or business)	\$
18. Cars and other vehicles	\$
19. Computers	\$
20. Household goods and furnishings (for example, appliances, electronics, furniture, etc.)	\$
21. Tools	\$
22. Jewelry	\$
23. Clothing	\$
24. Books	\$
25. Stocks and bonds	\$
26. Investments in coins, stamps, paintings, or other collectibles	\$
27. Firearms, sports, photographic, and other hobby equipment	\$
28. Interest in retirement accounts (IRA accounts, 401(k) accounts, and other retirement accounts)	\$
29. Interest in a pension plan	\$
30. Interest in education accounts	\$
31. Cash value of life insurance	\$
32. Security deposits with landlords, utilities, and others	\$
33. Interests in partnerships	\$
34. Value of investment in a business	\$
35. Other investments (for example, annuity contracts, guaranteed investment contracts, mutual funds, commodity accounts, interests in hedge funds, and options)	\$
36. Other assets not included above	\$
37. FMV of total assets immediately before the cancellation. Add lines 16 through 36.	\$
Part III. Insolvency	
38. Amount of Insolvency. Subtract line 37 from line 15. If zero or less, you aren't insolvent.	\$

PRACTITIONER
NOTE
PG 5

- Paycheck Protection Program
 - Amounts forgiven are excluded from gross income

SKIP TO PAGE 31



2020 RELIEF LOANS AND GRANTS

- Economic Injury Disaster Loan (EIDL)
 - For Businesses
 - Economic Hardship
 - Loss of Revenue
 - Working Capital and Normal Operating expenses
 - Minimum Loan \$ 15,000

ECONOMIC INJURY DISASTER LOAN ADVANCE

- \$ 1,000 per employee and per owner up to \$ 10,000
- Grant – included in income

How do I differentiate between the EIDL and the EIDL Advance, the client said they don't know.



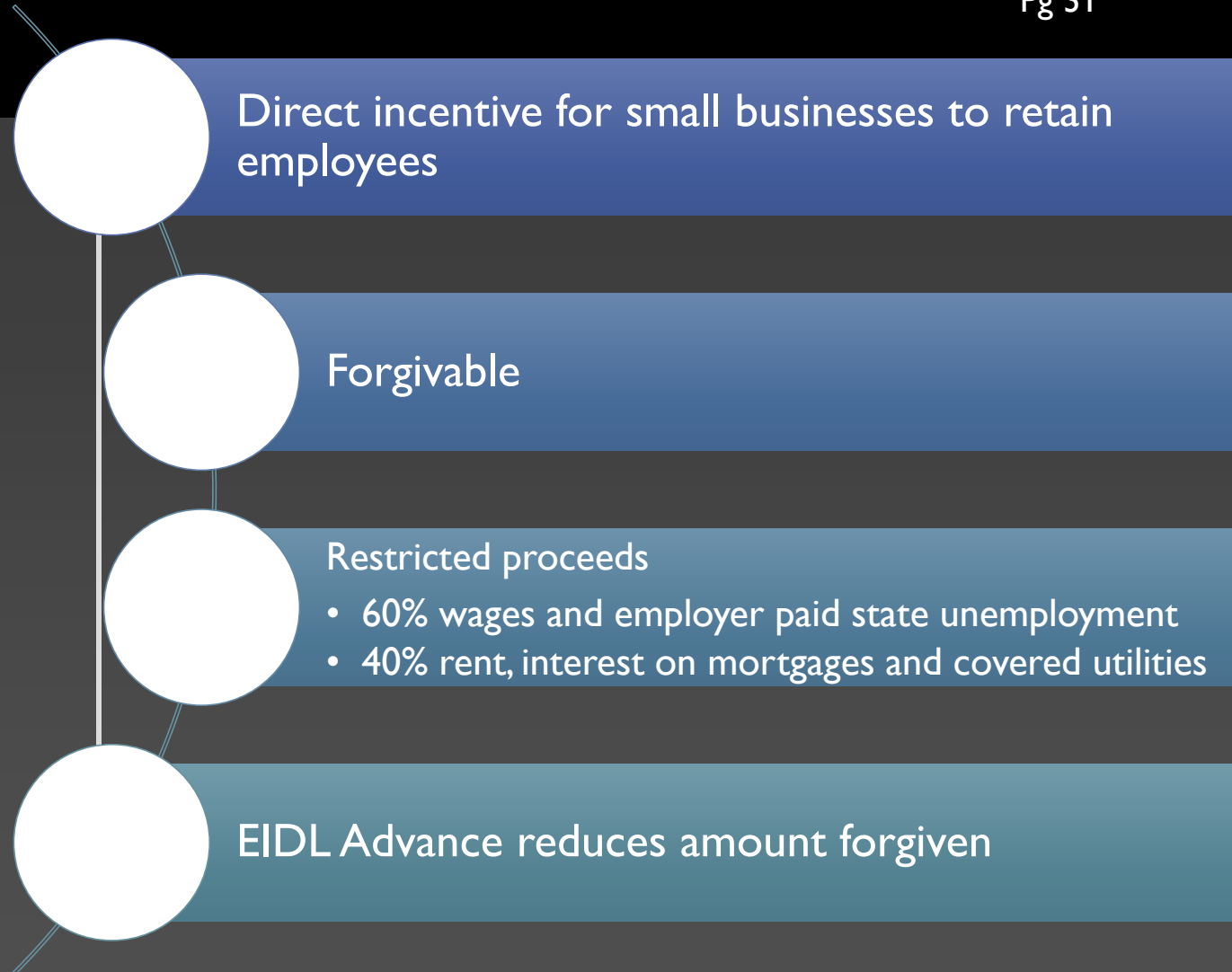
```
graph TD; A[How do I differentiate between the EIDL and the EIDL Advance, the client said they don't know.] --> B[There will be 2 deposits into the bank account]; B --> C[The EIDL also requires the borrower to sign loan documents];
```

There will be 2 deposits into the bank account

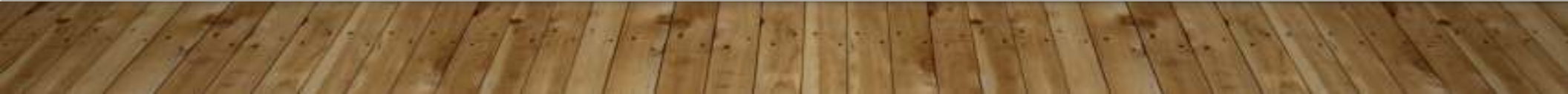
The EIDL also requires the borrower to sign loan documents

04/14	External Deposit SBAD TREAS 310 - MISC PAY NTE*PMT*EIDLADV: _____ \ EIDLADV: _____	\$4,000.00
04/22	External Deposit SBAD TREAS 310 - MISC PAY RMT*CT* _____	\$15,000.00

PAYCHECK PROTECTION PROGRAM



Specifically, this notice clarifies that **no deduction is allowed under the Internal Revenue Code (Code) for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan** pursuant to section 1106(b) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136, 134 Stat. 281, 286-93 (March 27, 2020) and the **income associated with the forgiveness is excluded from gross income for purposes of the Code pursuant to section 1106(i) of the CARES Act.**





Recipients of a PPP Loan will receive Form 1099-C if their loan is forgiven?



True or False

POLLING QUESTION 2

**SKIP TO
BACK TO
PAGE 7**



EXAMPLE 1.7

PG 7

- \$ 5,000 personal credit card debt
- 2020 COD of balance
- Liabilities = \$ 10,000
- FMV of Assets = \$ 7,000
- Insolvency amount = \$ 3,000 (\$ 10,000 – 7,000)
- Excluded COD = \$ 3,000
- Recognized COD Income = \$ 2,000

QUALIFIED FARM INDEBTEDNESS – I.R.C § 108(A)(1)(C)

PG 7

- Excluded from Income
- Owed to a qualified person incurred directly in the taxpayer's trade or business of farming
- 50% of aggregate gross receipts for 3 years prior must have been attributed to trade or business of farming
- Qualified person: individual, organization, partnership, association, corporation, or other person actively and regularly engaged in business of lending money

EXCLUDED
INCOME

CANNOT BE
MORE THAN
THE SUM OF

- the taxpayers adjusted tax attributes AND
- the totally adjusted basis of qualified property the taxpayer held at the beginning of the tax year following the year of the discharge

ADJUSTED TAX
ATTRIBUTES – I.R.C.
108(G)(3)(B) PG 8

PG 8

SUM of the following items:

1. Any NOL for 2020 and NOL carryover to 2020
2. Any net capital loss for 2020 and carryover to 2020
3. Any passive activity loss carryover to 2020
4. Three times the sum of any
 1. general business credit carryover to or from 2020
 2. minimum tax credit available as of beginning of 2021
 3. foreign tax credit carryover to or from 2020, and
 4. passive activity credit carryover from 2020

PRACTITIONER
NOTE
PG 8

- Rev. Rul 76-500, 1976-2 C.B. 254
 - Taxable COD is reported as
OTHER FARMING INCOME
and subject to SE TAX

QUALIFIED PROPERTY

PG 8

```
graph LR; A[ANY PROPERTY USED OR HELD FOR USE IN TRADE OR BUSINESS] --> B[TO PRODUCE INCOME]
```

ANY PROPERTY
USED OR HELD
FOR USE IN
TRADE OR
BUSINESS

TO PRODUCE
INCOME

QUALIFIED REAL PROPERTY BUSINESS INDEBTEDNESS

- Debtor is NOT a C Corporation
- Debt excluded from income under I.R.C. § 108(a)(1)(D)
- QRPBI is debt
 - Not qualified farm debt
 - Incurred to acquire, construct, reconstruct, or substantially improve real property used in trade or business
 - Certain refinancing of debt
 - Secured by real property
 - 100% Ownership Interest in disregarded entity holding real property

REAL PROPERTY – REV. RUL. 2016-15, 2016-26 I.R.B 1060

REAL ESTATE DEVELOPERS

- QRPBI exclusion for
 - Indebtedness relating to depreciable property
 - Used in trade or business
 - NO for indebtedness to purchase property held for sale
 - Leasing business – qualified to construct rental properties used

EXCLUSION LIMIT ON QRPBI

PG 8

-
- The outstanding principal amount of such indebtedness (immediately before the discharge), **OVER**
 - The FMV of the real property reduced by the outstanding principal amount of any other QRPBI secured by such property **AND**
 - **LESS THAN** the aggregate adjusted basis of depreciable real property **AFTER** basis reductions

QRPBI EXCLUSION –
MUST ELECT

FORM 982, REDUCTION
OF TAX ATTRIBUTES
DUE TO DISCHARGE OF
INDEBTEDNESS

Section 1082 Basis
Adjustment)

QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS – I.R.C. §P 1088(a)(1)(E)



BUY, BUILD OR
SUBSTANTIALLY
IMPROVE MAIN
RESIDENCE

REFINANCE USED
TO BUY, BUILD, OR
SUBSTANTIALLY
IMPROVE MAIN
RESIDENCE

PRACTITIONER
NOTE
PG 9

STATE LAW
COD MAY
BE
DIFFERENT

QPRI EXCLUSION LIMITS

PG 9



\$ 2,000,000 OR \$
1,000,000 MFS

TAXPAYER CANNOT
HAVE PERFORMED
SERVICES FOR
LENDER OR ANY
OTHER FACTOR

PRACTITIONER NOTE – DISASTER ACT EXTENSION

PG 9

THE TAXPAYER
CERTAINTY AND
DISASTER TAX RELIEF
ACT OF 2019 (THE
DISASTER ACT), PUB.
L. NO. 116-94

DISCHARGES
AFTER DECEMBER
21, 2017 AND
BEFORE JANUARY
01, 2021

ORDERING RULES FOR EXCLUSION

PG 9

Bankruptcy



```
graph TD; A[Bankruptcy] --> B[Qualified principal residence debt]; B --> C[Insolvency]; C --> D[Qualified farm debt]; D --> E[Qualified real property business debt]
```

Qualified principal residence debt

Insolvency

Qualified farm debt

Qualified real property business debt



Taxpayer may elect to apply
Insolvency Exclusion instead of
Qualified Principal Residence
Indebtedness Exclusion

REDUCTION OF
TAX
ATTRIBUTES
PG 9

I.R.C. § 108
= Deferral
of CODI

CODI
Deferral >
0

Form 982

Section
1082 Basis
Adjustment

FIGURE 1.3 Table 3 Tax Attribute Reduction Rules

Exclusion	Primary Attribute Reduction Rules	Secondary Attribute Reduction Rules	Form 982 Required?
Bankruptcy	IRC §108(b)	IRC §108(d)(8) IRC §1017(b)(2)	No
Insolvency	IRC §108(b)	IRC §1017(b)(2)	No
Farming	IRC §108(g) – First, determine limitations & excludable amount	IRC §108(b) IRC §1017(b)(4) only basis of qualified property is reduced	No
Real Property Business	IRC §108(c)(2) – First, determine limitations & excludable amount	IRC §108(c) basis of depreciable real property IRC §1017(b)(3)	Yes
Principal Residence	IRC §108(h)(1)	none	No
Bankruptcy, Insolvency, & Farming	IRC §108(b)(5) & IRC §1017(a) Election to first reduce depreciable property held at the beginning of the following year of discharge	IRC §108(b)	Yes
All exclusions except, Real Property Business and Principal Residence	IRC §1017(b)(3)(E) Election to treat certain inventory as depreciable property	IRC §108(b)	Yes

[IRS Real Estate Property Foreclosure and Cancellation of Debt Audit Technique Guide]

EXAMPLE 1.8 – REDUCTION OF TAX ATTRIBUTES PG 10

- 2015 Sloan purchased Principle Residence -- \$ 600,000
- 2020 Loan Modification & \$ 50,000 discharge
- 2020 Nonrecourse debt – before and after
- 2020 Excludes \$ 50,000 QPRI
- 2020 Basis Adjustment for QPRI -- \$ 550,000
- 2021 Sells home for \$ 700,000
- 2021 Gain = \$ 150,000 (700,000 – 550,000)

I.R.C. § 121 EXCLUSION OF GAIN FROM SALE OF PRINCIPLE RESIDENCE

PG 11



Can Sloan exclude \$ 150,000 gain on sale of her personal residence?



Yes, If she meets all the other criteria to exclude the gain

POLLING
QUESTION 3

Insolvency is when Liabilities are more than FMV of Assets after the cancellation of debt?

True or False

BANKRUPTCY & INSOLVENCY TAX ATTRIBUTES REQUIRING REDUCTION

PG 11

1. NOL – reduced dollar for dollar
2. General Business Credit Carryover – reduced by 33 1/3 cents for each dollar excluded
3. Minimum Tax Credit – reduced by 33 1/3 cents for each dollar excluded
4. Capital Loss Carryover – reduced dollar for dollar
5. Passive activity loss and credit carryovers -- PAL = reduced dollar for dollar & CC = reduced 33 1/3 cents for each dollar
6. Foreign tax credit carryovers – reduced 33 1/3 cents for each dollar

BANKRUPTCY & INSOLVENCY TAX ATTRIBUTES REQUIRING REDUCTION BASIS ORDERING RULES

PG 11

- a. Real property used in trade or business or held for investment & secured by canceled debt
- b. Personal property used in trade or business or held for investment (NOT A/R, N/R or inventory) & secured by canceled debt
- c. Any other personal property used in trade or business or held for investment (NOT A/R, N/R or inventory)
- d. Inventory, A/R, N/R and real property held primarily held for sale
- e. Personal use property (NOT used in trade or business or held for investment)

ELECTING BASIS REDUCTION PG 11

- I.R.C. § 108(b)(5) – elect basis reduction BEFORE reducing other tax attributes
 - Form 982 Line 5
 - < aggregate adjusted basis of depreciable property @ beginning of tax year following tax year of discharge

PRACTITIONER
NOTE
PG 12

Election to Treat Certain Real Property as
Depreciable Property

- I.R.C. § 1017(b)(3)(E) – basis reduction of inventory as real property
- I.R.C. § 1017(b)(4)(C) – basis reduction of qualified farm indebtedness

EXAMPLE 1.9 – Attribute reduction - insolvency

PG 12

-
- Doug has Real Estate Business
 - 2020 defaults on \$ 5,000,000 operating loan
 - Secured by building, land, security interest in equipment & 5 parcels of real estate for sale
 - Basis in each parcel \$ 1,000,000
 - Restructured debt and forgave \$ 1,000,000 of principal & extended balance of payments
 - FV of assets @ restructure = \$ 3,500,000

IS DOUG INSOLVENT?

- YES
- WHY?
 - Debt = \$ 5,000,000
 - FV = \$ 3,500,000
 - Insolvency = \$ 1,500,000

FIGURE 1.4 Doug Henderson's
Tax Attributes

Tax Attribute	Amount
Prior-year NOL carryover to 2020	\$ 400,000
Basis in office building	60,000
Basis in land under office building	90,000
Basis in equipment	50,000
Basis in real estate held for sale	5,000,000
Total tax attributes	<u><u>\$5,600,000</u></u>

REDUCTION OF TAX
ATTRIBUTES
PG 12

1st

- NOL reduced to 0

2nd

- Office Building & Land

3rd

- Equipment

4th

- Real Estate held for Sale

FIGURE 1.5 Doug Henderson's Form 982—No Section 108(b)(5) Election

Form 982 (Rev. March 2016) Department of the Treasury Internal Revenue Service		Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) ▶ Attach this form to your income tax return. ▶ Go to www.irs.gov/Form982 for instructions and the latest information.		OMB No. 1545-0046 Attachment Sequence No. 04	
Name shown on return Doug Henderson			Identifying number XXX-XX-XXXX		
Part I General Information (see instructions)					
1 Amount excluded is due to (check applicable box(es)): a Discharge of indebtedness in a title 11 case <input type="checkbox"/> b Discharge of indebtedness to the extent insolvent (not in a title 11 case) <input checked="" type="checkbox"/> c Discharge of qualified farm indebtedness <input type="checkbox"/> d Discharge of qualified real property business indebtedness <input type="checkbox"/> e Discharge of qualified principal residence indebtedness (Caution: See instructions before checking this box if debt was discharged after 2017.) <input type="checkbox"/>					
2 Total amount of discharged indebtedness excluded from gross income				2 1,000,000	
3 Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No					
Part II Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)					
Enter amount excluded from gross income:					
4 For a discharge of qualified real property business indebtedness applied to reduce the basis of depreciable real property				4	
5 That you elect under section 108(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property				5	
6 Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge				6 400,000	
7 Applied to reduce any general business credit carryover to or from the tax year of the discharge				7	
8 Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge				8	
9 Applied to reduce any net capital loss for the tax year of the discharge, including any capital loss carryovers to the tax year of the discharge				9	
10a Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. DO NOT use in the case of discharge of qualified farm indebtedness				10a 000,000	
b Applied to reduce the basis of your principal residence. Enter amount here ONLY if line 1e is checked				10b	
11 For a discharge of qualified farm indebtedness applied to reduce the basis of:					
a Depreciable property used or held for use in a trade or business or for the production of income if not reduced on line 5				11a	
b Land used or held for use in a trade or business of farming				11b	
c Other property used or held for use in a trade or business or for the production of income				11c	
12 Applied to reduce any passive activity loss and credit carryovers from the tax year of the discharge				12	
13 Applied to reduce any foreign tax credit carryover to or from the tax year of the discharge				13	

FIGURE 1.6 Doug Henderson's Form 982 Attachment—No Section 108(b)(5) Election

Statement for 2020 Form 982, line 10a Doug Henderson

SSN XXX-XX-XXXX

Asset	Basis before Reduction	Allocation of Basis Reduction	Basis Reduction	Basis after Reduction
Office building	\$ 60,000	Entire	\$ 60,000	\$ 0
Land under office building	90,000	Entire	90,000	0
Equipment	50,000	Entire	50,000	0
Real estate held for sale	5,000,000	\$80,000 to each parcel	400,000	4,600,000
Total	<u>\$5,200,000</u>		<u>\$600,000</u>	<u>\$4,600,000</u>

EXAMPLE 1.10 – ELECTION TO REDUCE DEPRECIABLE BASIS FIRST

PG 14

- Facts are same as Example 1.9
- Except Doug wants to save his NOL for 2021
- Elects under § 108(b)(5) AND
- Elects to treat real estate held for sale as depreciable property under § 1017(b)(3)(E)

EXAMPLE 1.10 –
ELECTION TO
REDUCE
DEPRECIABLE BASIS
FIRST
PG 14

- Doug's Basis in each parcel = \$ 1,000,000
- New Basis after election = \$ 890,000
 - SUM of \$ 1,000,000 – 60,000 (office building) – 50,000 (equipment)

Form 982
(Rev. March 2018)
Department of the Treasury
Internal Revenue Service

Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

OMB No. 1545-0046

▶ Attach this form to your income tax return.
▶ Go to www.irs.gov/Form982 for instructions and the latest information.

Attachment Sequence No. **94**

Name shown on return
Doug Henderson

Identifying number
XXX-XX-XXXX

Part I General Information (see instructions)

- 1 Amount excluded is due to (check applicable box(es)):
- a Discharge of indebtedness in a title 11 case ☐
 - b Discharge of indebtedness to the extent insolvent (not in a title 11 case) ☒
 - c Discharge of qualified farm indebtedness ☐
 - d Discharge of qualified real property business indebtedness ☐
 - e Discharge of qualified principal residence indebtedness (**Caution:** See instructions before checking this box if debt was discharged after 2017.) ☐
- 2 Total amount of discharged indebtedness excluded from gross income **2** 1,000,000
- 3 Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? ☒ Yes ☐ No

Part II Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)

Enter amount excluded from gross income:

- 4 For a discharge of qualified real property business indebtedness applied to reduce the basis of depreciable real property **4**
- 5 That you elect under section 1082(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property **5** 1,000,000
- 6 Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge **6**
- 7 Applied to reduce any general business credit carryover to or from the tax year of the discharge **7**
- 8 Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge **8**
- 9 Applied to reduce any net capital loss for the tax year of the discharge, including any capital loss carryovers to the tax year of the discharge **9**
- 10a Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. **DO NOT** use in the case of discharge of qualified farm indebtedness. **10a**
- b Applied to reduce the basis of your principal residence. Enter amount here **ONLY** if line 1e is checked **10b**
- 11 For a discharge of qualified farm indebtedness applied to reduce the basis of:
- a Depreciable property used or held for use in a trade or business or for the production of income if not reduced on line 5 **11a**
 - b Land used or held for use in a trade or business of farming **11b**
 - c Other property used or held for use in a trade or business or for the production of income **11c**
- 12 Applied to reduce any passive activity loss and credit carryovers from the tax year of the discharge **12**
- 13 Applied to reduce any foreign tax credit carryover to or from the tax year of the discharge **13**

FIGURE 1.8 Doug Henderson's Form 982 Attachment—With Section 108(b)(5) Election

Statement for 2020 Form 982, line 10a Doug Henderson

SSN XXX-XX-XXXX

Asset	Basis before Reduction	Allocation of Basis Reduction	Basis Reduction	Basis after Reduction
Office building	\$ 60,000	Entire	\$ 60,000	\$ 0
Equipment	50,000	Entire	50,000	0
Real estate held for sale	5,000,000	\$178,000 to each parcel	890,000	4,110,000
Total	<u>\$5,110,000</u>		<u>\$1,000,000</u>	<u>\$4,110,000</u>

BASIS REDUCTION LIMITS

PG 16

-
- I.R.C. § 1017(b)(2) -- does not apply if taxpayer elects to reduce basis of depreciable assets before reducing other tax attributes
 - Limitation on total basis = smallest of
 - The basis of personal use property held at the beginning of the year after the year of discharge
 - The amount of canceled nonbusiness debt (other than QPRI) that was excluded from income (Line 2 Form 982)
 - The excess of the total basis of the property and the amount of money held immediately after the cancellation over total liabilities immediately after the cancellation

EXAMPLE 1.11 –
BASIS
REDUCTION
LIMIT PG 16

2018 Elaine bought a car for \$ 12,000

Loan for \$ 10,000

2020 bank Repossession – loan balance \$ 8,500

FMV of car at time of Repo = \$ 7,000

Debt Forgiveness = \$ 1,500
(\$ 8,500 - \$ 7,000)

FIGURE 1.9 Elaine Carter's Assets

Asset	Basis	FMV
Furniture	\$5,000	\$3,000
Jewelry	500	1,000
Savings account	600	600
Total	<u>\$6,100</u>	<u>\$4,600</u>

- FMV of all assets including car = \$ 11,600
- Total Liabilities = \$ 14,500 (car & student loan debt)
- Insolvency amount = \$ 2,900
- Excluded debt = \$ 1,500
- Basis limitation order:
 - \$ 5,500 to personal use property
 - \$ 1,500 nonbusiness debt
 - \$ 100 to money
- Basis Reduction order:
 - Furniture 91%
 - Jewelry 9%

QUALIFIED FARM INDEBTEDNESS

PG 17

- Basis reduction order
 - Depreciable qualified property (including real property held primarily for sale to customers that the taxpayer elects to treat as depreciable property)
 - Land used or held for use in the trade or business of farming
 - Other qualified property
- Event timing = earlier of
 - The beginning of the tax year following the year of discharge,
OR
 - Immediately before a disposition of the property

REPAYMENT OF CANCELED DEBT PG 17

- I.R.C. § 1341 --- DOES NOT APPLY
 - Repayment as a deduction is not allowed
- 1040X – REQUIRED

GAIN FROM TRANSFER OF ASSETS & CODI

- Treas. Reg. § 1.101-2(a)(1): Capital Gain or CODI realized
 - Exceptions:
 - If the debt is recourse, the amount realized does NOT include CODI
 - For a purchase-money debt, the amount realized does NOT include discharged debt that reduced the basis

EXAMPLE 1.12 DEED IN LIEU OF FORECLOSURE PG 17

- 2012 Dmitri borrowed \$ 500,00 recourse business loan
- Office building secures the loan
- Adjusted Tax Basis of building \$ 350,000
- FMV of building is \$ 400,000
- Straight-line method of depreciation
- Executed Deed-in-Lieu instead of foreclosure



Debt Canceled = \$ 500,000



§ 1231 Gain = \$ 50,000 (FMV \$ 400,000 – Basis \$ 350,000)



CODI = \$ 100,000 (\$ 500,000 – FMV \$ 400,000)



If debt was nonrecourse = § 1231 Gain of \$ 150,000

ABANDONMENTS

PAGES 18 - 19

ABANDONMENTS

PG 18



VOLUNTARY



PERMANENT



GIVES UP USE OF
PROPERTY



GAIN OR LOSS REALIZED
WHEN FORECLOSURE
COMPLETE

EXAMPLE 1.13 ABANDONMENT OF PERSONAL USE PROPERTY SECURING RECOURSE DEBT

PG18

- 2015 Juanita bought home for \$ 200,000
- Recourse – personally liable
- 2020 mortgage balance \$ 185,000
- 2020 FMV \$ 150,000
- 2020 Abandoned the home & moved out permanently
- NO Gain/Loss – foreclosure was never completed



PRACTITIONER NOTE

Cancellation-of-Debt Income

If the abandoned property secures a recourse debt and the debt is canceled, the taxpayer will have cancellation-of-debt income. See the earlier discussion of the tax treatment of cancellation-of-debt income.

FIGURE 1.10 Juanita Gomez's Form 1099-A

☐ CORRECTED (if checked)

LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0077		2020 Form 1099-A Acquisition or Abandonment of Secured Property
Anytime Bank 100 Main Street Kalispell, MT 59901 (406)752-9999				
LENDER'S TIN	BORROWER'S TIN	1 Date of lender's acquisition or knowledge of abandonment	2 Balance of principal outstanding	Copy B For Borrower This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
XXXXXXXXXX	XXXXXXXXXX	06/05/2020	\$ 185,000	
BORROWER'S name		3	4 Fair market value of property	
Juanita Gomez Street address (including apt. no.) 412 Second Avenue West City or town, state or province, country, and ZIP or foreign postal code Columbia Falls, MT 59912 Account number (see instructions) XXXXXX		5 If checked, the borrower was personally liable for repayment of the debt <input type="checkbox"/> 6 Description of property Residence located at 412 Second Avenue West Columbia Falls, MT	\$	
Form 1099-A		(keep for your records)		www.irs.gov/Form1099A Department of the Treasury - Internal Revenue Service

PROPERTY SECURING NONRECOURSE DEBT

Sale or exchange
= nonrecourse
debt

Amount realized
on abandonment
= nonrecourse
debt

Amount realized
> taxpayers
adjusted basis =
gain

Amount realized
< taxpayers
adjusted basis =
loss

Loss on business
property =
character of
property

EXAMPLE 1.14
ABANDONMENT OF
PERSONAL USE
PROPERTY SECURING
NONRECOURSE DEBT
PG 19

Same facts as 1.13 except
Juanita is NO personally liable

Realized \$ 185,000 (mortgage
balance) as sale/exchange

\$ 15,000 nondeductible
personal loss

EXAMPLE 1.15
ABANDONMENT OF
BUSINESS USE
PROPERTY SECURING
NONRECOURSE
DEBT PG 19

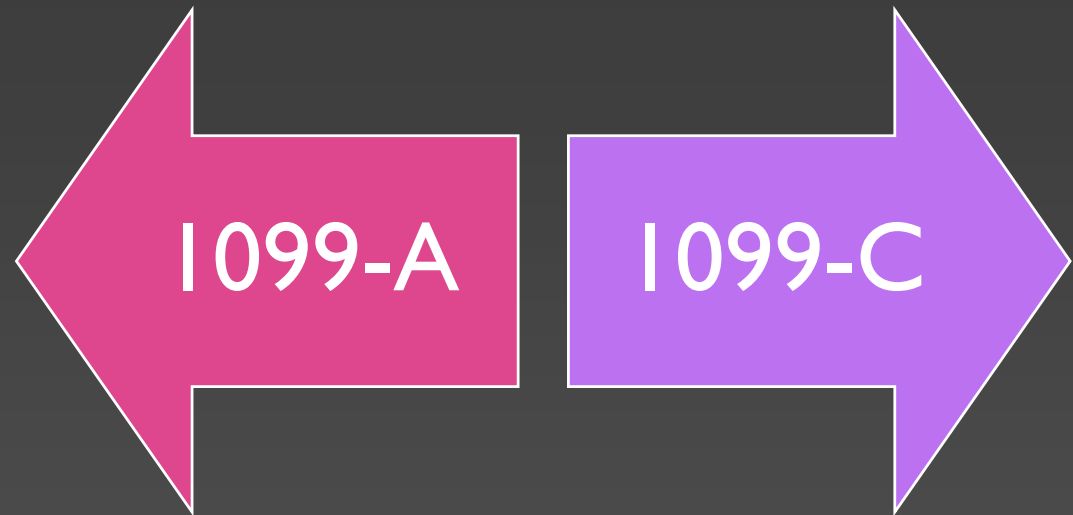
- 2015 Robert business property -- \$ 200,000
- Nonrecourse – not personally liable
- 2020 defaults on loan – balance \$ 185,000
- FMV = \$ 150,000
- Abandon Property
- Adjusted Basis = \$ 190,000
- Realized amount = \$ 185,000
- Deductible Loss = \$ 5,000

DEBT-RELATED INFORMATION RETURNS

PGS 19-23



DEBT-RELATED
INFORMATION
RETURNS PG 19



1. A discharge of indebtedness under Bankruptcy Code
2. I.R.C. § 368(a)(3)(A)(ii) -- cancellation or extinguishment of an indebtedness that renders the debt unenforceable in a receivership, foreclosure, or similar proceeding in a federal or state court
3. ...expiration of statute of limitations for collections
4. ...indebtedness pursuant to an election of foreclosure remedies by a creditor that statutorily extinguishes or bars the creditor's right to pursue collections
5. ...renders a debt unenforceable pursuant to a probate or similar proceeding
6. ...pursuant to an agreement between entity & debtor

CANCELED DEBT – IDENTIFIABLE EVENTS

PG 20

EXAMPLE 1.16
LENDER
FORECLOSURE
REPORTED ON
FORM 1099-C
PG 21

- Don, business owner
- Recourse Loan of \$ 100,000 secured by shop
- 2020 Foreclosure
- FMV = \$ 75,000
- Loan Balance = \$ 80,000
- Bank Sale = \$ 75,000
- Discharge = \$ 5,000 = Ordinary Income

FIGURE 1.11 Don Rafferty's Form 1099-C

☐ VOID ☐ CORRECTED

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Big Sky Bank 300 Main Street Bozeman, MT 59715 (406) 587-9999		1 Date of identifiable event 5/13/20		OMB No. 1545-1424 2020 Form 1099-C
		2 Amount of debt discharged \$ 55,000		
		3 Interest, if included in box 2 \$		
CREDITOR'S TIN XXXXXXXX	DEBTOR'S TIN XXXXXXXXXX	4 Debt description Loan #123345 Secured by a mortgage on 312 Main Street, Bozeman, MT		
DEBTOR'S name Don Rafferty Street address (including apt. no.) 312 Main Street City or town, state or province, country, and ZIP or foreign postal code Bozeman, MT 59715 Account number (see instructions) XXXXX				
		5 Check here if the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>		Copy C For Creditor For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.
		6 Identifiable event code G	7 Fair market value of property \$ 75,000	

Form **1099-C**

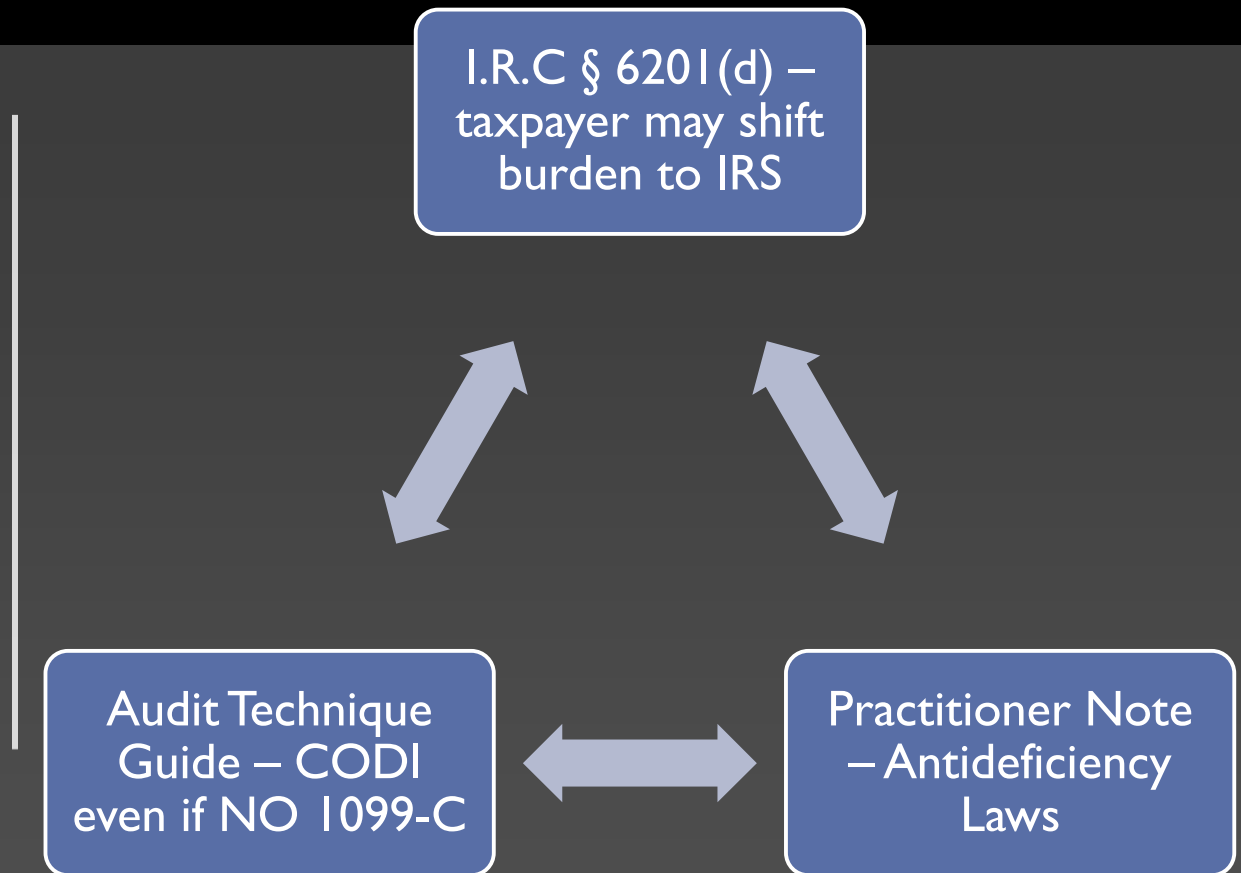
www.irs.gov/Form1099C

Department of the Treasury - Internal Revenue Service

- *Cozzi v. Commissioner*, 88 T.C. 435, 445 (1987) – debt canceled/discharged based upon facts & circumstances
- *Owens v. Commissioner*, T.C. Memo, 2002-253... -- issuance of Form 1099-C is not dispositive of an intent to cancel debt
- *Parker v. Commissioner*, 117 F.3d 785 (5th Cir. 1997) – IRS has no duty to investigate third party payment report
- *Portillo v. Commissioner*, 932 F.2d 1128 (5th Cir. 1991) – if taxpayer reports different amount than reported on 1099-C, IRS may issue Deficiency Notice & taxpayer has burden of proof

EFFECT OF
INFORMATION
REPORTING ON
COD INCOME
PG 22

PG 22





BAD-DEBT DEDUCTION

PGS 23 - 31

BUSINESS BAD
DEBTS – I.R.C. §
166(d)(2)

PG 23

- Debts that were created or acquired in the taxpayer's trade or business
- Debts that were related to taxpayer's trade or business at the time they become worthless
- Treas. Reg. § 1.166-5(b)



Allen, grocery store owner



\$400 credit to Brian



Allen sells store to Chelsea – keeps Brian's debt



Brian declares bankruptcy



Treas. Reg § 1.166-5(d) -- \$400 is bad debt to Allen

EXAMPLE 1.17 DEBT CREATED IN COURSE OF BUSINESS



Facts the same as Example 1.17



\$400 credit to Brian



Allen sells store to Chelsea – Brian's debt sold



Brian declares bankruptcy



Treas. Reg § 1.166-5(d) -- \$400 is bad debt to Chelsea

EXAMPLE 1.18 DEBT FROM FORMER BUSINESS



Facts the same as Example 1.17



\$400 credit to Brian



Allen sells store to Chelsea & sold Brian's debt to Denise



Brian declares bankruptcy



Treas. Reg § 1.166-5(d) -- \$400 is NOT bad debt to anyone

EXAMPLE 1.19 DEBT UNRELATED TO BUSINESS



Facts the same as Example 1.17



\$400 credit to Brian



Allen died in 2020 and Donny inherited store



Brian declares bankruptcy



Treas. Reg § 1.166-5(d) -- \$400 is bad debt to Donny

EXAMPLE 1.20 DEBT ACQUIRED FROM A DECEDENT

BONA FIDE DEBT
– TREAS. REG.
§ 1.166-1(c)

PG 24

- Debt arising from debtor-creditor relationship
- Valid & enforceable obligation to pay
- Cash method taxpayers cannot take deduction

TYPES OF BUSINESS BAD DEBT LOANS

PG 24



To clients



To suppliers



To distributors



To employees



Credit sales to
customers



Business loan
guarantees

SHAREHOLDER/OWNER LOANS OR CAPITAL CONTRIBUTION TREAS. REG. § 1.166-1(c)

1. Names given to certificates of evidencing the indebtedness
2. Presence or absence of a fixed maturing date
3. Source of payments
4. Right to enforce payments
5. Participation in management as a result of the advances
6. Status of the advances in relation to regular corporate creditors
7. Intent of the parties
8. Identity of interest between creditor and stockholder
9. Thinness of capital structure in relation to debt
10. Ability of corporation to obtain credit from outside sources
11. Use to which advances were put
12. Failure of debtor to repay
13. Risk involved in making advances

Sam builds
specialized farm
machinery



Metal
Fabricator, Inc is
his supplier



Qualifies as
business bad
debt



Sam loans Metal
Fabricators \$
100,000

EXAMPLE 1.21
LOAN TO
SUPPLIER
PG 25

Example 1.22 Cash Basis Service Provider

- Priya – cash basis architect
- July 2020 designed a home & send client invoice for \$ 5,000
- Client never pays
- 2021 Priya determines she'll never collect
- NO bad-debt deduction because Priya never included income at time of service

Example 1.23 Accrual Method Service Provider

- Same facts as 1.23 except
- Priya – accrual basis architect
- 2021 Bad-debt deduction because she included income at time of service



Taxpayer made the guarantee in the course of trade or business



Taxpayer has legal duty to pay the debt



Taxpayer made the guarantee before debt became worthless



Taxpayer received reasonable consideration for making the guarantee

Direct or indirect
Accordance with normal trade or business
Good-faith business purpose



Related parties – consideration must be direct

**BUSINESS LOAN
GUARANTEES AS BAD
DEBT IF... PG 25**



Deduction in year debt becomes worthless



Must demonstrate reasonable steps to collect



Financial condition of the debtor & value of collateral



Judgment from court or bankruptcy



Deduction when right to demand becomes worthless



Practitioner Note: Joint debt is worthless when cannot collect from both debtors

TOTALLY WORTHLESS
BAD DEBT
PG 26

PRACTITIONER NOTE

Investment Loan Guarantee

If the taxpayer guarantees a loan to protect his or her investment, the taxpayer may claim a non-business bad-debt deduction on loan amounts that the taxpayer pays. The taxpayer cannot have any right to demand payment from the borrower. See the later discussion of how to deduct nonbusiness bad debts.

Example 1.24 Business Loan Guarantee

- Loretta owns company
- Sells to dress shop, that temporarily shut down
- Loretta company loans dress shop \$ 20,000
- Dress shop defaulted on loan
- Qualifies as business bad debt

METHODS TO CLAIM BUSINESS BAD DEBT DEDUCTION

PG 26 & 27

Specific Charge-Off Method

- Claim deduction in year debt becomes partly or totally worthless
- Claim for a Refund: use if didn't deduct on original return in year became totally worthless
 - File claim by the later of
 - 7 years from date the original return was due (no extensions)
 - 2 years from date the taxpayer paid the tax
- Claim for a Refund: use if didn't deduct on original return in year became partially worthless
 - File claim by the later of
 - 3 years from the date taxpayer file original return
 - 2 years from date taxpayer paid the tax

Nonaccrual Experience Method

- Use accrual method of accounting
- Reporting requirements
 - Provide services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting OR
 - Have average annual gross receipts < \$ 26,000,000 for 3 prior tax years
- Do not accrue service-related income expected to become worthless debt

- ❖ Extended time to file
- ❖ Diminished Capacity
- ❖ Unexpected Death
- ❖ Physicians Statement

Example 1.24 Reporting a business bad debt deduction

2020 Sam loaned Metal Fabricator \$ 100,000

2021 Metal Fabricator became insolvent & went out of business

2021 loan balance \$ 75,000 became worthless

Sam reports bad debt on Schedule C

REPORTING BUSINESS BAD DEBT DEDUCTION --- ON TAX RETURN USED TO REPORT INCOME

FIGURE 1.12 Part V of Sam Miller's 2021 Schedule C (Form 1040)

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.	
Business bad debt for loan to Metal Fabricator's, Inc. on December 18, 2020. The \$75,000 remaining loan	
balance became totally worthless on March 5, 2021, when the bank repossessed all Metal Fabricator's	
equipment and it went out of business.	75,000

NONBUSINESS BAD DEBT

PG 28

- Short-term Capital Loss = year debt becomes totally worthless
- I.R.C. § 166(d)(2) = nonbusiness debts as debts other than
 - Debts that were created or acquired in the taxpayer's trade or business OR
 - Debts that were related to the taxpayer's trade or business at the time they became worthless
- Payment schedule to prove loan and NOT gift
- True debtor-creditor relationship with valid & enforceable obligation to repay fixed or determinable sum of money

EXAMPLES

PG 28

I.25 Gift

- Sarah borrows \$ 1,000 from parents
- No interest or repayment obligation
- Unenforceable

I.26 Personal Loan

- Ebony & Jamal loan \$ 50,000 to their son Darius
- Darius signed Promissory Note
- Loan was secured by 2nd mortgage
- Enforceable

I.27 Deposit

- 2019 Amanda hired Peter to build custom cabinets
- Amanda gave Peter \$ 5,000 deposit
- Peter did not build cabinets and did not return deposit
- Peter was insolvent
- Deposit is totally worthless

PRACTITIONER NOTE

Worthless Securities

If the taxpayer owns securities that become totally worthless, he or she can take a deduction for a loss, but not for a bad debt. The loss is treated as a loss from the sale or exchange of a capital asset on the last day of the tax year [I.R.C. § 165(g)].

Deductible ONLY when worthless

Limited to taxpayer's basis

Cash method taxpayers cannot take deduction for unpaid salaries, wages, rents, fee, interest or dividends

Example 1.28 Unpaid Wages

- Nora worked at flower shop
- 2020 shop went bankrupt & didn't pay Nora's wages
- Nora may not claim bad debt deduction

LIMITATIONS ON
NONBUSINESS BAD
DEBT PG 28

REPORTING THE LOSS

PG 29

- Short-Term Capital Loss
- Form 8949, Part I
- Each debt reported separately
- Must attach a statement which includes:
 - Description of the debt, including the amount and the due date
 - Name of the debtor, and any business or family relationship between the taxpayer and the debtor
 - The efforts taxpayer made to collect the debt
 - Explanation of why the debt was worthless (example: borrower declared bankruptcy)

EXAMPLE 1.29 REPORTING NONBUSINESS BAD DEBT AMANDA FROM EXAMPLE 1.27

FIGURE 1.13 Form 8949 for Amanda Jones

Form 8949 Department of the Treasury Internal Revenue Service		Sales and Other Dispositions of Capital Assets ▶ Go to www.irs.gov/Form8949 for instructions and the latest information. ▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.		OMB No. 1545-0074 2019 Attachment Sequence No. 12A		
Name(s) shown on return Amanda Jones			Social security number or taxpayer identification number XXX-XX-XXXX			
Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.						
Part I Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2. Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).						
You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.						
<input type="checkbox"/> (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above). <input type="checkbox"/> (B) Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS. <input checked="" type="checkbox"/> (C) Short-term transactions not reported to you on Form 1099-B.						
1	(d) Description of property (Example: 100 sh. XYZ Co.)	(e) Date acquired (Mo., day, yr.)	(f) Date sold or disposed of (Mo., day, yr.)	(g) Proceeds (sales price) (see instructions)	(h) Cost or other basis (See the Note below and see Column (e) in the separate instructions)	
				(i) Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (i). See the separate instructions.	(j) Gain or (loss). Subtract column (h) from column (g) and combine the result with column (i).	
	Peter Carpenter - bad debt statement attached			0	5,000	
						(5,000)

Amanda Jones, SSN XXX-XX-XXXX

Statement for line 1 of Form 8949, Nonbusiness Bad-Debt Deduction

1. Taxpayer deposited \$5,000 with Peter Carpenter on September 5, 2019, as a deposit towards custom cabinets for the taxpayer's home.
2. Peter Carpenter did not build the cabinets and did not return the deposit.
3. The taxpayer sent several demand letters to Peter Carpenter. The taxpayer also hired an attorney who sent several demand letters and threatened to bring a civil lawsuit.
4. In 2020, Peter Carpenter provided the taxpayer's attorney with financial information that demonstrated that Peter was insolvent and legal action to collect would probably not result in payment of any part of the debt.

On original return for year debt becomes totally worthless



File 1040X, the later of:

Within 7-years from due date
of original return OR

Within 2-years from date
taxpayer paid the tax

POLLING QUESTION 4

The EIDL Advance was \$ 1,000 per employee up to \$ 10,000 and is considered a Grant included in taxable income?

☒ True or False

QUESTIONS?

