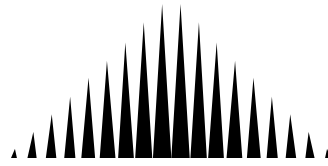


The corporate deadline is fast approaching!  
**MARCH 15TH**  
Tax interview appointments are now available. Please call to schedule your appointment today!

T. Dennis Connally,  
Consultant, P.C. CPA



**T. Dennis Connally Consultant, P.C.**  
**Certified Public Accountant**



## MARCH 2010

### Word of the Month

#### **Temporize \TEM-puh-ryz\ , intransitive verb;**

1. To be indecisive or evasive in order to gain time or delay action.
2. To comply with the time or occasion; to yield to prevailing opinion or circumstances.
3. To engage in discussions or negotiations so as to gain time (usually followed by 'with').

#### **March Birthdays**

Dr. Seuss—March 2nd  
Herschel Walker—March 3rd  
Carrie Underwood—March 10th  
Jack Kerouac—March 12th  
Albert Einstein—March 14th

**PLEASE NOTE: ALL CORPORATIONS FILING  
AN EXTENSION SHOULD CONTACT  
OUR OFFICE IMMEDIATELY!  
THE EXTENSION FEE OF \$75 PER ENTITY &  
THE NET WORTH CHECK SHOULD BE RECEIVED BY OUR  
OFFICE NO LATER THAN MARCH 10TH.**

### IMPORTANT DATES TO REMEMBER

Forms W-2 and 1099 should have been delivered to the recipients and filed with the IRS!

March 15th—All completed corporate tax returns and extensions should be filed including the 2010 Net Worth tax to the State of Georgia

March 22nd—Georgia monthly sales tax forms and payments due

March 31st—All individual information should be to our office to ensure completion of tax return by April 15th

### I received a 1099-C Cancellation of Debt. What does this mean for me?

It is full blown tax season around our office these days, and things are moving right along. Many people have received Form 1099-C—Cancellation of Debt. I hope that you find this article useful while understanding the outcome of receiving the cancellation of debt.

What constitutes income from the cancellation of debt?

#### **COD Income**

Debt that a borrower no longer is liable for because it is discharged by the lender can give rise to taxable income to the borrower. Debt forgiveness income or cancellation of debt income ("COD" income) is the amount of debt that a lender has discharged or canceled. However, in

many situations, the canceled debt is excluded from taxable income.

Credit cards, car loans and mortgage debt are three of the most common consumer debts, yet many individuals don't know the tax rules surrounding discharges of these debts by lenders. In general, almost all types of discharged

debt will be includable in the borrower's taxable income, unless a specific exclusion applies.

The creditor will generally report COD income to the IRS and to the debtor, using Form 1099-C, Cancellation of Debt, even if an exclusion applies.

The creditor may not be aware that the debtor can exclude the COD income. We can help you determine whether an exclusion applies.

### **Discharge of Indebtedness Income**

When a loan is settled for less than the amount owed, discharge of indebtedness (DOI) income is realized by the debtor and usually must be included in the debtor's gross income ( Code Sec. 61(a)(12)). The amount of DOI income is generally equal to the amount of loan forgiveness. DOI income also occurs when a debtor repurchases his own debt at a discount (meaning a price lower than the adjusted issue price of the debt instrument). In debt repurchase transactions, the amount of DOI income is generally equal to the difference between the adjusted issue price and the price paid for the debt instrument.

### **Exclusions and reduction of attributes**

There are four situations where cancelled debt does not result in taxable income: 1. The debt has been discharged through a bankruptcy proceeding under Title 11; 2. Insolvency (your total debts exceed your total assets); 3. The debt is due to a qualified farm expense ("qualified farm indebtedness"); 4. The debt is due to certain real property business losses ("qualified real property business indebt-

edness") and 5. If the debt discharged is qualified principal residence indebtedness, discharged before January 1, 2013.

When canceled debt is excluded from income, the debtor may be required to reduce tax attributes, such as a net capital loss or the basis of property. The reduction of attributes must be reported on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attached to your federal income tax return.

Other exclusions may apply to student loans, disaster victims, gifts, general welfare payments, and payments that would have been deductible.

### **Credit card and car loan debt**

Noticeably absent from the specific exceptions to COD income are two of the biggest consumer debt items: credit cards and car loans. Credit card debt or an unpaid debt on a car loan that is forgiven by the lender is includable in gross income, unless the debtor is bankrupt or insolvent. The lender will report the amount of forgiven debt on Form 1099-C, Cancellation of Debt.

### **Mortgage debt forgiveness**

For a limited period of time, certain mortgage debt that is discharged by the lender is excludable from COD income and therefore does not result in taxable income to homeowners. This debt is generally referred to as "qualified principal residence indebtedness." The cancellation of qualifying mortgage debt is excludable

from income if it is incurred with respect to the taxpayer's principal residence for "acquisition" debt forgiven on or after January 1, 2007 and before January 1, 2013. Acquisition debt is indebtedness secured by the residence and incurred in the acquisition, construction or substantial improvement of the residence.

Certain debt used to refinance the debt is also eligible. Debt forgiven on a second home or rental property does not qualify for the exclusion.

Limited deferral for discharge of indebtedness income from reacquisition of debt instruments.— At the election of the taxpayer, income from the discharge of indebtedness in connection with the reacquisition after December 31, 2008, and before January 1, 2011, of an applicable debt instrument is includable in gross income ratably over the five-tax-year period beginning with:

- The fifth tax year following the tax year in which the reacquisition occurs for a reacquisition occurring in 2009; and
- The fourth tax year following the tax year in which the reacquisition occurs for a reacquisition occurring in 2010 as added by the American Recover and Reinvestment Tax Act of 2009.

### **Reporting**

If you had debt discharged in 2009 that does not qualify for an exception, you must include the amount of cancelled debt in your gross income on your tax return. If you have questions about COD income, the exclusions from income, or your reporting responsibilities, please contact our office.

770-920-2890