

## **RLSS – IRS Reporting for Acquisition or Abandonment of Secured Property and/or Cancellation of Debt**

Following are excerpts from IRS Instructions for Forms 1099-A and 1099-C. If you believe you are required to complete these forms, please consult the IRS website for complete instructions. The IRS requires these forms to be filed by January 31.

File “Form 1099-A, Acquisition or Abandonment of Secured Property”, for each borrower if you lend money in connection with your trade or business and, in full or partial satisfaction of the debt, you acquire an interest in the property that is security for the debt, or you have reason to know that the property has been abandoned.

If, in the same calendar year, you cancel a debt of \$600 or more in connection with a foreclosure or abandonment of secured property, it is not necessary to file both Form 1099-A and Form 1099-C, Cancellation of Debt, for the same debtor. You may file Form 1099-C only.

File “Form 1099-C, Cancellation of Debt”, for each debtor for whom you cancelled a debt owed to you of \$600 or more if an identifiable event has occurred, and you are one of the following:

1. A financial institution described in section 581 or 591(a).
2. A credit union.
3. Any of the following, its successor, or a subunit of one of the following:
  - a. Federal Deposit Insurance Corporation,
  - b. National Credit Union Administration,
  - c. Any other federal executive agency, including government corporations,
  - d. Any military department,
  - e. U.S. Postal Service, or
  - f. Postal Rate Commission.
4. A corporation that is a subsidiary of a financial institution or credit union, but only if, because of your affiliation, you are subject to supervision and examination by a federal or state regulatory agency.
5. A Federal Government agency including:
  - a. A department,
  - b. An agency,
  - c. A court or court administrative office, or
  - d. An instrumentality in the judicial or legislative branch of the government.
6. Any organization whose significant trade or business is the lending of money, such as a finance company or credit card company (whether or not affiliated with a financial institution). The lending of money is a significant trade or business if money is lent on a regular and continuing basis.

Although most RLSS users are not included in the above descriptions, you as a lender have the option of voluntarily submitting 1099-Cs. This can be useful in your collection process related to bad debts.

When your agency has recognized a loan as a bad debt, and charged off the principal balance, you can then submit a 1099-C at the end of the year. Once you have issued a 1099-C to a debtor,

you cannot actively pursue collection, but you can receive voluntary contributions from the debtor.

If the debt was cancelled for reasons other than bankruptcy, the amount of the charge off may become taxable income for the debtor, which can in turn become an incentive for repayment. A note of caution: Reporting charged off loans on 1099-Cs should only be done when all avenues of collection have been exhausted. Because the cancelled debt is reported to IRS as potential income, any future recoveries toward that loan must be voluntary