



Publication 4731-A

Screening Sheet for Foreclosures/Abandonments and Cancellation of Mortgage Debt

If the taxpayer is in bankruptcy and has a discharge of qualified principal residence indebtedness, the tax return is Out of Scope.

Instructions: Use this Screening Sheet to assist taxpayers with Form(s) 1099-A and/or 1099-C with cancellation of debt issues.

- Use Part I for taxpayers with only Form 1099-A for a foreclosure or abandonment of their principal residence.
- Use Part II for taxpayers with Form 1099-C, or both Forms 1099-A and 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Publication 4731, Screening Sheet for Nonbusiness Credit Card Debt Cancellation, for taxpayers with Form 1099-C resulting from cancellation of credit card debt.

Part I – Home Mortgage Loan

1. Did the taxpayer receive Form 1099-A, Acquisition or Abandonment of Secured Property, from their home mortgage lender?

☐ **Yes** – Go to Step 2

☐ **No** – Advise the taxpayer to get the documentation from the home mortgage lender.

2. Did the taxpayer ever use the home in a trade or business or as rental property?

☐ **Yes** – Go to Step 6

☐ **No** – Go to Step 3

3. Is Box 5 of Form 1099-A checked indicating a recourse loan in which the taxpayer is personally liable?

☐ **Yes** – The sales price is the lesser of Box 2 (Balance of principal outstanding) or Box 4 (Fair market value of property) on Form 1099-A, plus any proceeds the taxpayer received from the foreclosure sale.

☐ **No** – The sales price is the amount in Box 2 (Balance of principal outstanding) on Form 1099-A, plus any proceeds the taxpayer received from the foreclosure sale. The taxpayer is not personally liable (nonrecourse loan).

4. Ask the taxpayer for the cost or basis of the home.

Refer to Publication 523, Selling your Home, for further information, if needed.

5. Report the sale of the personal residence on Form 8949, Sales and Other Disposition of Capital Assets, and Schedule D, Capital Gains and Losses.

If the disposition of the property results in a:

Gain – The taxpayer may qualify for the Section 121 exclusion (\$250,000 or \$500,000 if Married Filing Jointly) of the gain on the sale of a principal residence, if all requirements are met.

Loss – The taxpayer cannot claim a loss on the sale or disposition of a principal residence. Use adjustment Code L on Form 8949 to exclude this loss.

See Foreclosure and Abandonment Key Highlights in Publication 4012 for further information. Do not go to Step 6.

6. These tax issues are outside the scope of the volunteer program.

Refer the taxpayer to:

- IRS website for the most up-to-date information
- A professional tax preparer.
- The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.

Additional Resources:

- Publication 523, Selling your Home
- Publication 525, Taxable and Nontaxable Income
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions

Part II – Home Mortgage Loan

1. Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their home mortgage lender and is the information shown on the form correct?

- ☐ **Yes** – Go to Step 2
☐ **No** – Go to Step 6

Note: Answer “yes” if the taxpayer has received a Form 1099-A and Form 1099-C.

2. Did the taxpayer ever use the home in a trade or business or as rental property?

- ☐ **Yes** – Go to Step 6
☐ **No** – Go to Step 3
-

3. Does Box 3 of Form 1099-C show any interest or does box 6 show code A indicating bankruptcy?

- ☐ **Yes** – Go to Step 6
☐ **No** – Go to Step 4

Note: If Box 6 is not marked with code A but the taxpayer has subsequently filed bankruptcy, answer “yes.”

4. Ask the following questions to determine if the discharged debt is “qualified principal residence indebtedness:”

- a. Was the mortgage taken out to buy, build, or substantially improve the taxpayer’s principal residence? (**Note:** A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at any one time.)

- ☐ **Yes** – Go to Step 4b
☐ **No** – Go to Step 6
-

- b. Was the mortgage secured by the taxpayer’s principal residence?

- ☐ **Yes** – Go to Step 4c
☐ **No** – Go to Step 6
-

- c. Was any part of the mortgage used to pay off credit cards, purchase a car, pay for tuition, pay for a vacation, pay medical/dental expenses, or used for any other purpose other than to buy, build, or substantially improve the principal residence?

- ☐ **Yes** – Go to Step 6
☐ **No** – Go to Step 4d
-

- d. Was the mortgage amount more than \$750,000 (\$375,000 if Married Filing Separately)?

- ☐ **Yes** – Go to Step 6
☐ **No** – Go to Step 5
-

5. The discharged debt is “qualified principal residence indebtedness.”

The volunteer should complete the TaxSlayer screens for Form 1099-C and Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer also may be required to report the disposition (sale) on Form 8949 and Schedule D. Do **not** go to Step 6.

6. These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved in the mortgage debt relief exclusions are complex.

Refer the taxpayer to:

- IRS website for the most up-to-date information
- A professional tax preparer.
- The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.

Additional Resources:

- Publication 523, Selling your Home
 - Publication 525, Taxable and Nontaxable Income
 - Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
 - Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions
-