

August 2020 TaxInsight



Cancellation of Debt Income

In the current crisis, more taxpayers than usual are unable to pay their bills and are seeking debt forgiveness. The general rule is that cancelled debts are included in the income of the taxpayer. However, exceptions may allow the taxpayer to eliminate the following types of canceled debt from income:

- Gifts, bequests, and inheritances
- Some student loans cancelled in a program to encourage certain professions (e.g., doctors, nurses and teachers serving in rural or low-income areas)
- Cancelled debt that would be deductible if you paid the debt
- A qualified purchase price reduction (agreement to adjust the purchase price of an item)
- Certain pay-for-performance payments under the Home Affordable Modification Program
- Student loans discharged because of the death or disability of the taxpayer
- Nonrecourse debt

There are also exclusions to the general rule that can reduce income. These include the following:

- Debt cancelled in a bankruptcy case
- Debt cancelled to the extent insolvent
- Qualified farm indebtedness
- Qualified real property business indebtedness
- Qualified principal residence indebtedness

Exceptions are applied before exclusions. If the income falls under an exception, you do not have to report anything. If you exclude cancellation of debt income, you'll have to make up the exclusion by decreasing your basis in other assets. When the assets are later sold, there may be additional capital gains at that time.

For more information about how to treat cancellation of debt income, please call my office. I'd be happy to help you plan for this.

Tax Notes

If you have purchased a vehicle for your business, here's how much you can deduct on your business tax return:

Year	With Bonus Depreciation	Without Bonus Depreciation
1st tax year	\$18,100	\$10,100
2nd tax year	\$16,100	\$16,100
3rd tax year	\$9,700	\$9,700
Each succeeding year	\$5,760	\$5,760

Tax Due Dates

- Extended Form 1065 – September 15
- Extended Form 1120S – September 15
- Extended Form 1041 – September 30

Did You Know?

July 22 to August 22 are known as the “dog days of summer” because the constellation of Canis Major is visible during this time. It includes Sirius, the dog star. The stars of Canis Major appear to follow those in the constellation Orion, the hunter.

Quote Corner

“Courage doesn't always roar. Sometimes courage is the quiet voice at the end of the day saying, ‘I will try again tomorrow.’”

~ Mary Anne Radmacher