**See Screening Sheet on page D-58 of Pub 4012 to determine if COD is in scope.**

Taxpayer receives a 1099-C from a credit card company or bank. The amount of the debt canceled is shown in Box 2 of 1099C.

* Canceled debt is generally considered income and is reported on the 1040, Schedule 1 line 21, other income, UNLESS the taxpayer was in bankruptcy or insolvent (i.e., the taxpayer’s liabilities exceeded assets) immediately before the debt was canceled.
* If the taxpayer was in bankruptcy or insolvent immediately before the debt was canceled, all or part of the canceled debt may be excludable from income.
	+ **Cases involving bankruptcy or insolvency are OUT OF SCOPE...**
* The preparer needs to ask taxpayer if they were in bankruptcy or might have been insolvent immediately before the debt was canceled; if “yes” or “not sure,” we must refer the client to a paid preparer. (OUT OF SCOPE)
* The debt must be personal (i.e. NOT related to a business)
	+ **Cases involving business related debt are OUT OF SCOPE...**
* Credit card cancellation of debt is reported on a 1099-C if the amount is over $600. Any amounts less than $600 not reported on a 1099-C are still taxable.
* The amount of interest shown in box 3 can be ignored since it is included in box 2 and is taxable.
* All other types of forgiven debt including Qualified Principal Residence Indebtedness is **OUT OF SCOPE.**
* Cancellation of debt amounts are not taxable in NJ.

**Example**

Fred runs up $15,000 in credit card debt and can’t pay. He works out a deal with the credit card company to settle for $10,000 and the rest of the debt is canceled. Fred was solvent immediately before the debt was canceled. Fred receives a 1099-C from the creditor shown below:

**18**

**Big Bank**

**1 Big Plaza**

**Gotham, DE 11001**

**05/05/2018**

**5,000.00**

**X**

**Fred Doe**

**123 Elm St**

**Anytown, YS 12345**

**Credit Card**

The consequence is $5,000 of taxable income which is reported on the 1040, Schedule 1, line 21, other income, as CANCELLED DEBT.

**Step 1:**  In TSO, enter 1099-C in the search box.

**Step 2:** Go to 4012 Pages D-60 and follow the screen entries on this page

**Step 3:** The amount entered on 1040, Schedule 1, line 21 of the Federal return should **not** go to line 26 (Other Income) of the NJ return. TSO seems to be doing this correctly. Check the NJ return to be sure.