Inflation Reduction Act Direct Loan Payments and New 1099 Forms

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Contact Information

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This webinar is for educational purposes only and does not constitute tax advice. The instructor does not speak for the USDA.
BACKGROUND
Background

- In section 22006 of the Inflation Reduction Act (IRA)—signed into law August 16, 2022—Congress authorized USDA to provide financial assistance to **financially distressed borrowers of direct and guaranteed FSA loans**.
- In October of 2022, payments were made on behalf of these groups.
  - Payments were made on behalf of **direct loan borrowers** who were more than 60 days delinquent.
    - The IRA funds made these **accounts current** and paid the next installment due.

- If you received this relief, you should have received an information letter last fall and tax forms this year.
- **Background**
  - Absent an exclusion in the law, agricultural payments made to farmers by the government are subject to ordinary income tax and self-employment tax.
  - *No provision in the Inflation Reduction Act excluded these loan payments from taxation.*
**Background**

- IRA funds were also used to provide relief to **guaranteed loan** borrowers.
  - These borrowers also received tax forms at the beginning of 2023.
- *The information in this webinar does not apply to guaranteed loan borrowers.*
- At this time, the guaranteed loan borrower may continue to rely on the original 1099-G reporting their loan relief payment.
  - The relief is taxable income, generally subject to SE tax.
  - Borrowers may deduct any associated interest.
### CHANGING FORMS (AND WHY)

**Form 1099-G**

- **PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.**
- **RECIPIENT'S TIN**
- **RECIPIENT'S name**
- **Direct Loan Borrower**

**Certain Government Payments**

- **1 Unemployment compensation**
- **2 State or local income tax refunds, credits, or offsets**
- **3 Box 2 amount is for tax year**
- **4 Federal income tax withheld**
- **5 RTAA payments**
- **6 Taxable grants**
- **7 Agriculture payments**
- **8 Check if box 2 is trade or business income**
- **9 Market gain**
- **Arlington, OK 74694**
- **Account number (see instructions)**

**Copy 1**

For State Tax Department

**Form 1099-G (Rev. 1-2022)**

[www.irs.gov/Form1099G](http://www.irs.gov/Form1099G)

Department of the Treasury - Internal Revenue Service
Form 1099-G

Federal, state, or local governments must file a Form 1099-G (and provide it to the taxpayer) if they made payments of:

- Unemployment compensation
- State or local income tax refunds, credits, or offsets
- Reemployment trade adjustment assistance (RTAA) payments
- Taxable grants
- Agricultural payments

They also file this form if they received payments on a Commodity Credit Corporation (CCC) loan.
Form 1099-G

In early 2023, recipients of IRA loan relief received a Form 1099-G, specifying the amount of the loan payment made on the borrower’s behalf. This amount was reported in addition to any other government payments made to the borrower.
### Form 1099-G

Many recipients of the 1099-G may have already filed their 2022 income tax returns, reporting the IRA payments as income on their Schedule F and paying the associated tax. **The tax filing deadline for individuals was yesterday, April 18, 2023.**

<table>
<thead>
<tr>
<th></th>
<th>3a Cooperative distributions (Form(s) 1099-PATRI)</th>
<th>3b Taxable amount</th>
<th>4a Agricultural program payments (see instructions)</th>
<th>4b Taxable amount</th>
<th>5a Commodity Credit Corporation (CCC) loans reported under election</th>
<th>5b CCC loans forfeited</th>
<th>5c Taxable amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3a</td>
<td>100,000</td>
<td></td>
<td>4a</td>
<td>100,000</td>
<td>5a</td>
<td>5b</td>
<td>5c</td>
</tr>
</tbody>
</table>

Crop insurance proceeds and federal crop disaster payments (see instructions):
Tax Options

- For most producers, the relief was helpful. The benefit of the loan payment outweighed the burden of the associated tax.
- For some, however, the tax associated with the “phantom” loan payment income is a burden they cannot meet. They do not have the cash flow and they cannot secure financing to pay the tax.
- USDA and Treasury/IRS have been exploring options to lessen this burden.
Payments Re-Characterized as COD

- To provide recipients with additional tax options, the USDA has re-characterized the direct farm loan relief payments originally reported on the 1099-G as cancelation of debt (COD).
- This may allow some direct loan borrowers to exclude some or all of the payment made of their behalf from gross income on their 2022 income tax return.
New Forms Were Sent

- Recipients of the direct loan relief received letters, along with **two** new tax forms: a **corrected 1099-G** and a **Form 1099-C**.
**Corrected 1099-G**

- The **corrected 1099-G backs out** the **direct loan payment** reported on the original 1099-G.

![Image of 1099-G form]

The corrected 1099-G form highlights the backout of the direct loan payment reported on the original form.
Corrected 1099-G Does Not Back Out Other Payments

- If the original 1099-G reported an additional government program payment or a payment for a guaranteed FSA loan, that amount will remain on the corrected 1099-G.

- **Example**: Siena’s original agricultural payment in Box 7 of the 1099-G was $55,000. This included a $45,000 IRA payment, and a $10,000 payment from the ERP.
Corrected 1099-G Does Not Back Out Other Payments

- Siena’s corrected 1099-G retains the $10,000 ERP payment, but backs out the $45,000 IRA payment. She also received a new Form 1099-C showing $45,000 as debt discharged.
A lender must issue a Form 1099-C if they forgive, discharge, or cancel more than $600 in debt. Discharged debt is usually income, but special exceptions apply.
The new Form 1099-C from USDA reports the IRA direct loan payment as **discharged debt**. This reporting may provide some recipients with the ability to exclude the payment or a portion of the payment from income on their 2022 return.
What Does This Mean?

- Everyone receiving these new forms has options that should be discussed with a tax professional as soon as possible. These options depend upon whether you have already filed your return and paid your tax due.
CANCELATION OF DEBT
Special Tax Provision for Cancelation of Debt

- Section 108 of the Internal Revenue Code (tax law) contains several provisions allowing some individuals to exclude or defer cancelation of debt from gross income on the 2022 return.
- It is possible that the following exclusions may apply to some FSA direct loan borrowers who have received the loan payment relief.
  - Insolvency
  - Qualified Farm Indebtedness
But First Consider Interest

- Under section 108, farmers don’t recognize income from the discharge of indebtedness if the payment of that debt would have entitled to farmer to a deductible expense.
- This means that COD for any portion of the debt arising from interest is not income.
But First **Consider Interest**…

- The IRA payments were made for interest and principal due and owing under the direct and guaranteed FSA loans.
- The new 1099-C reports the **total amount** of the debt relief in Box 2.
- It should break out the amount paid for interest in Box 3.

<table>
<thead>
<tr>
<th>Box</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Amount of debt discharged</td>
<td>$50,000</td>
</tr>
<tr>
<td>3</td>
<td>Interest, if included in box 2</td>
<td>$5,000</td>
</tr>
</tbody>
</table>
But First **Consider Interest**

- If you reported the amount shown on your original Form 1099-G as income, you were entitled to deduct any amount of that payment attributable to interest as an expense on your Schedule F.
- If you file your 2022 return using the new Form 1099-C, you should **exclude from income** the payment amount attributable to interest.
Interest Example

- Jorge received a Form 1099-C reporting a $50,000 IRA payment as discharge of indebtedness.
- $5,000 of that payment was reported as interest that was due on the direct FSA loan.
- Before Jorge considers whether he has additional options to exclude this payment from income under Section 108, he may automatically exclude the $5,000 from income.
- He will then consider whether the remaining $45,000 may be excluded under several special Section 108 provisions.
Special Tax Provision for Cancelation of Debt

Once the otherwise deductible portion of the payment (interest) is excepted, borrowers must then determine whether one of two key exceptions may exclude the remaining COD from income.

1. The borrower must first determine whether the insolvency exception applies.
2. If any amount is not excluded because of insolvency, the borrower, must then determine if the qualified farm indebtedness exclusion applies.

Section 108 also includes exclusions for bankruptcy and qualified real property, exceptions not discussed here.
Insolvency

- Section 108 says that cancelation of debt is **not included in gross income** to the extent a non-bankrupt debtor was **insolvent** when the debt was forgiven.

- Insolvency exists to the extent your liabilities were greater than the fair market value of your assets immediately before the debt was discharged (in this case in October 2022).

Liabilities – FMV Assets = Insolvency
Resources

- Page 16 of IRS Publication 225, Farmer’s Tax Guide, also provides helpful information about cancellation of debt for farmers.

Cancellation of Debt

This section explains the general rule for including canceled debt in income and the exceptions to the general rule. For more information on canceled debt, see Pub. 4681.

TIP

Under section 1106 of the CARES Act, an eligible recipient of a Paycheck Protection Program loan is eligible for forgiveness of indebtedness for all or a portion of the stated principal amount of a covered loan if certain conditions are satisfied (qualifying forgiveness): in addition, the forgiven debt isn’t taxable. See Announcement 2020-12.

General Rule

Generally, if your debt is canceled or forgiven, other than as a gift or bequest to you, you must include the canceled amount in gross income for tax purposes. Report the canceled amount on Schedule F if you incurred the debt in your farming business. If the debt is a nonbusiness debt, report the canceled amount as “Other income.”

How you treat the canceled debt depends on your method of accounting.

- Cash method—You don’t include the canceled debt in income because payment of the debt would have been deductible as a business expense.
- Accrual method—You include the canceled debt in income because the expense was deductible when you incurred the debt.

Exclusions

Don’t include canceled debt in income in the following situations.

1. The cancellation takes place in a bankruptcy case under title 11 of the U.S. Code.
2. The cancellation takes place when you’re insolvent.
3. The canceled debt is a qualified farm debt.
4. The canceled debt is a qualified real property business debt (in the case of a taxpayer other than a C corporation). See.
Resources

- IRS Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments, includes an insolvency worksheet and provides instructions for the insolvency calculation.
**Insolvency**

- Your liabilities include all personal and business debt immediately before the cancellation.

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**Insolvency Worksheet**

<table>
<thead>
<tr>
<th>Liabilities (debts)</th>
<th>Amount Owed Immediately Before the Cancellation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit card debt</td>
<td>$</td>
</tr>
<tr>
<td>2. Mortgage(s) on real property (including first and second mortgages and home equity loans) (mortgage(s) can be on main home, any additional home, or property held for investment or used in a trade or business)</td>
<td>$</td>
</tr>
<tr>
<td>3. Car and other vehicle loans</td>
<td>$</td>
</tr>
<tr>
<td>4. Medical bills owed</td>
<td>$</td>
</tr>
<tr>
<td>5. Student loans</td>
<td>$</td>
</tr>
<tr>
<td>6. Accrued or past due mortgage interest</td>
<td>$</td>
</tr>
<tr>
<td>7. Accrued or past due real estate taxes</td>
<td>$</td>
</tr>
<tr>
<td>8. Accrued or past due utilities (water, gas, electric, etc.)</td>
<td>$</td>
</tr>
<tr>
<td>9. Accrued or past due childcare costs</td>
<td>$</td>
</tr>
<tr>
<td>10. Federal or state income taxes remaining due (for prior tax years)</td>
<td>$</td>
</tr>
<tr>
<td>11. Judgments</td>
<td>$</td>
</tr>
<tr>
<td>12. Business debts (including those owed as a sole proprietor or partner)</td>
<td>$</td>
</tr>
<tr>
<td>13. Margin debt on stocks and other debt to purchase or secured by investment assets other than real property</td>
<td>$</td>
</tr>
<tr>
<td>14. Other liabilities (debts) not included above</td>
<td>$</td>
</tr>
<tr>
<td>15. Total liabilities immediately before the cancellation. Add lines 1 through 14.</td>
<td>$</td>
</tr>
</tbody>
</table>
## Insolvency – All Assets *(Includes Exempt Assets 😞)*

<table>
<thead>
<tr>
<th>Part II. Fair market value (FMV) of assets owned immediately before the cancellation (don’t include the FMV of the same asset in more than one category)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><strong>FMV Immediately Before the Cancellation</strong></td>
</tr>
<tr>
<td>16. Cash and bank account balances</td>
<td>$</td>
</tr>
<tr>
<td>17. Real property, including the value of land (can be main home, any additional home, or property held for investment or used in a trade or business)</td>
<td>$</td>
</tr>
<tr>
<td>18. Cars and other vehicles</td>
<td>$</td>
</tr>
<tr>
<td>19. Computers</td>
<td>$</td>
</tr>
<tr>
<td>20. Household goods and furnishings (for example, appliances, electronics, furniture, etc.)</td>
<td>$</td>
</tr>
<tr>
<td>21. Tools</td>
<td>$</td>
</tr>
<tr>
<td>22. Jewelry</td>
<td>$</td>
</tr>
<tr>
<td>23. Clothing</td>
<td>$</td>
</tr>
<tr>
<td>24. Books</td>
<td>$</td>
</tr>
<tr>
<td>25. Stocks and bonds</td>
<td>$</td>
</tr>
<tr>
<td>26. Investments in coins, stamps, paintings, or other collectibles</td>
<td>$</td>
</tr>
<tr>
<td>27. Firearms, sports, photographic, and other hobby equipment</td>
<td>$</td>
</tr>
<tr>
<td>28. Interest in retirement accounts (IRA accounts, 401(k) accounts, and other retirement accounts)</td>
<td>$</td>
</tr>
<tr>
<td>29. Interest in a pension plan</td>
<td>$</td>
</tr>
<tr>
<td>30. Interest in education accounts</td>
<td>$</td>
</tr>
<tr>
<td>31. Cash value of life insurance</td>
<td>$</td>
</tr>
<tr>
<td>32. Security deposits with landlords, utilities, and others</td>
<td>$</td>
</tr>
<tr>
<td>33. Interests in partnerships</td>
<td>$</td>
</tr>
<tr>
<td>34. Value of investment in a business</td>
<td>$</td>
</tr>
<tr>
<td>35. Other investments (for example, annuity contracts, guaranteed investment contracts, mutual funds, commodity accounts, interests in hedge funds, and options)</td>
<td>$</td>
</tr>
<tr>
<td>36. Other assets not included above</td>
<td>$</td>
</tr>
<tr>
<td>37. FMV of total assets immediately before the cancellation. Add lines 16 through 36.</td>
<td>$</td>
</tr>
</tbody>
</table>
Insolvency Calculation

- Cancelation of debt can generally be excluded from your 2022 income up to the amount of insolvency showing on line 38 of the IRS worksheet.

- If there is no insolvency, this exception will not apply. If there is partial insolvency, the exception will apply only up to the amount of the insolvency.

<table>
<thead>
<tr>
<th>Part III. Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>38. Amount of insolvency. Subtract line 37 from line 15. If zero or less, you aren't insolvent.</td>
</tr>
</tbody>
</table>
Form 982 - Insolvency Reporting

- If you are **insolvent**, then you will check the box on line 1b of Form 982 and enter the amount of the COD that does not exceed the insolvency amount on line 2.
- **This amount will not be included as income** on the 2022 return.
Form 982 – Reduction of Tax Attributes

- The insolvency exclusion does not usually allow you to permanently avoid tax liability for the canceled debt.
- Rather, it may **defer the liability** by restricting future tax benefits (ex. Basis in assets is reduced so you have less depreciation in the future).
- The purpose of Form 982 is to **reduce those tax attributes**.
Example

- Bryan’s 1099-C reports $120,000 of discharged debt, $20,000 of which was attributable to interest.
- Bryan and his tax professional determine that Bryan was insolvent before the discharge and that his amount of insolvency was $150,000.

- Bryan will report $100,000 ($120,000 - $20,000 of interest) on line 2 of Form 982 and check the box on line 1b. This amount is excluded from his 2022 gross income under the insolvency exception.
- Bryan must complete Part II of Form 982 to reduce his tax attributes.
Reduction of Tax Attributes

- The order of the tax attributes or benefits that must be reduced depends upon the specific exclusion under which the discharge qualifies.
- Generally, borrowers qualifying for the **insolvency exclusion** must reduce the following tax benefits (but not below zero) in the order listed on the next slide.
Reduction of Tax Attributes for Insolvency

1. NOLs and NOL carryovers for year of discharge
2. General business credit carryover (reduced by 33.3 cents for each dollar of excluded canceled debt)
3. Minimum tax credit available as of the following tax year (reduced by 33.3 cents for each dollar of excluded canceled debt)
4. Net capital loss and capital loss carryovers for year of discharge
5. **Basis Reduction of Property** (including personal use property)
6. Passive activity loss and carryovers from year of discharge
7. Foreign tax credit carryover to or from the year of discharge
Order of Reducing the Basis of Property

1. Real property used in your trade or business or held for investment if it secured the canceled debt.
2. Personal property used in your trade or business or held for investment (other than inventory and accounts and notes receivable) if it secured the canceled debt.
3. Any other property used in your trade or business or held for investment (other than inventory, accounts receivable, notes receivable, and real property held for sale to customers in the ordinary course of business)
Order of Reducing the Basis of Property

4. Inventory, accounts receivable, notes receivable, and real property held primarily for sale to customers in the ordinary course of business.

5. Personal-use property (property not used in your trade or business nor held for investment)
Reduction of Tax Attributes for Insolvency

- The basis reduction applies to the basis of the property the borrower held at the beginning of the taxable year following the year of discharge (January 2023).
- The reduction in basis ($ for $) cannot be more than the amount by which the total basis of property exceeds the borrower’s total liability, as calculated immediately after the discharge.
- **Note**: Instead of reducing attributes in this order, debtors can elect to reduce the basis of depreciable property held at the beginning of 2023 before reducing other tax attributes.
- If the borrower takes advantage of this option, the limitation above does not apply.
Recapture is Possible

- If basis is reduced to offset COD, the reduction will be treated as a depreciation deduction subject to **ordinary income recapture** upon sale or exchange.
- Property that is not section 1245 property will be treated as section 1245 property.
  - This applies to farmland, which is not subject to depreciation and otherwise not subject to recapture.
Qualified Farm Indebtedness

- If you were not insolvent or the amount of discharged debt exceeds insolvency, the qualified farm indebtedness exception may apply. To qualify, the following requirements must be met:
  - The debt was incurred directly in connection with your operation of the trade or business of farming
  - 50% or more of your total gross receipts for 2019, 2020, and 2021 were from the trade or business of farming

Qualified farm indebtedness is incurred to finance the production of agricultural products (including timber) or livestock or farm business debt secured by farmland or farmland and equipment used in agricultural production.
Qualified Farm Indebtedness Limitation

- The amount of COD excluded from income under the qualified farm indebtedness exception cannot exceed the sum of:
  - Your adjusted tax attributes AND
  - The total adjusted basis of qualified property you held at the beginning of 2023

- Anything over this amount is taxable income.
Qualified Farm Indebtedness Limitation

- This limitation defers the recognition of income by spreading it out over the depreciable lives of the farmer’s business assets.
- If there are insufficient attributes to reduce, the income is recognized.
  - **Note**: Solvent farmers only have a deferral, whereas insolvent farmers may have complete forgiveness if their insolvency exceeds the value of their tax attributes.
Reduction of Tax Attributes for Qualified Farm Indebtedness (Similar, but Different)

- NOLs and NOL carryovers for year of discharge
- General business credit carryover (reduced by 33.3 cents for each dollar of excluded canceled debt)
- Minimum tax credit available as of the following tax year (reduced by 33.3 cents for each dollar of excluded canceled debt)
- Net capital loss and capital loss carryovers for year of discharge

**Basis Reduction of “Qualified Property”**

- Passive activity loss and carryovers from year of discharge
- Foreign tax credit carryover to or from the year of discharge
Reduction of Tax Attributes for Qualified Farm Indebtedness

- **Qualified property** = property used or held for use in the trade or business or for the production of income (includes rental property). Basis must be reduced in this order:
  1. Depreciable property
  2. Land used in farming
  3. Any remaining qualified property

- If basis is reduced through the reduction of tax attributes, the reduction will be treated as a depreciation deduction subject to *ordinary income recapture* upon sale or exchange.
  - This applies to farmland, which is not subject to depreciation and otherwise not subject to recapture.
Example

- Jeralyn was a solvent farm direct loan borrower. She had $150,000 of debt discharged by the IRA payment.
- Jeralyn owns farmland with a basis of $900,000.
- Under the qualified farm indebtedness provision, Jeralyn reduces the basis of her farmland by $150,000 and excludes the IRA payment from income.
- If Jeralyn later sells her farmland, she must recapture the $150,000 as ordinary income.
- If she sells it in an installment sale, the recapture is triggered in the year of the installment agreement is made.
Reduction of Tax Attributes for Qualified Farm Indebtedness

- If you are able to exclude discharge of indebtedness from income under the Qualified Farm Indebtedness exception, check the box on line 1c on Form 982 and report the amount of the exclusion on line 2.

Form 982
Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

- Attach this form to your income tax return.
- Go to www.irs.gov/Form982 for instructions and the latest information.

**Part I General Information (see instructions)**

1. Amount excluded is due to (check applicable box(es)):
   - a. Discharge of indebtedness in a title 11 case
   - b. Discharge of indebtedness to the extent insolvent (not in a title 11 case)
   - c. Discharge of qualified farm indebtedness
   - d. Discharge of qualified real property business indebtedness
   - e. Discharge of qualified principal residence indebtedness (Caution: See instructions before checking this box if debt was discharged after 2017.)

2. Total amount of discharged indebtedness excluded from gross income

   2 35,000
Reduction of Tax Attributes for Qualified Farm Indebtedness

- If a portion of income was also excluded for insolvency, the amounts are totaled on line 2.

<table>
<thead>
<tr>
<th>Part I</th>
<th>General Information (see instructions)</th>
</tr>
</thead>
</table>
| 1      | Amount excluded is due to (check applicable box(es)):
| a      | Discharge of indebtedness in a title 11 case
| b      | Discharge of indebtedness to the extent insolvent (not in a title 11 case) ✗
| c      | Discharge of qualified farm indebtedness ✗
| d      | Discharge of qualified real property business indebtedness
| e      | Discharge of qualified principal residence indebtedness (Caution: See instructions before checking this box if debt was discharged after 2017.)
| 2      | Total amount of discharged indebtedness excluded from gross income 66,000
## Reduction of Tax Attributes for Qualified Farm Indebtedness

**Part II** Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)

<table>
<thead>
<tr>
<th>Enter amount excluded from gross income:</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10a</th>
<th>10b</th>
<th>11a</th>
<th>11b</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 For a discharge of qualified real property business indebtedness applied to reduce the basis of depreciable real property</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 That you elect under section 108(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Applied to reduce any general business credit carryover to or from the tax year of the discharge</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Applied to reduce any net capital loss for the tax year of the discharge, including any capital loss carryovers to the tax year of the discharge</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10a Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. <strong>DO NOT use in the case of discharge of qualified farm indebtedness</strong></td>
<td>10a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b Applied to reduce the basis of your principal residence. <strong>Enter amount here ONLY if line 1e is checked</strong></td>
<td>10b</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>11 For a discharge of qualified farm indebtedness applied to reduce the basis of:</td>
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<td>a Depreciable property used or held for use in a trade or business or for the production of income if not reduced on line 5</td>
<td>11a</td>
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<td>b Land used or held for use in a trade or business of farming</td>
<td>11b</td>
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Reduction of Tax Attributes for Qualified Farm Indebtedness

- **Note**: Any basis reduction occurs at the beginning of the taxable year following the taxable year in which the discharge occurs.
Reporting Income from 1099-C

- If a portion of your canceled debt is **not excluded from income** under the insolvency exception or the qualified indebtedness exception, report that amount as income on line 8 of Schedule F.
WHAT ARE MY OPTIONS?
What if I Have **Already Filed My 2022 Return?**

- Contact your tax professional and provide them with the new forms **and the letter**. The letter is very important as it explains the reason for the forms and the options available.

- If you determine that you do not qualify or do not wish to exclude this discharge of debt from income, **YOU DO NOT NEED TO AMEND YOUR RETURN**.

- IRS will not require an amendment to consider the 1099-C. They are aware of this issue.
What if I Have Already Filed My 2022 Return?

- If you determine that you do qualify to exclude some of the discharge of indebtedness from income, you may **FILE AN AMENDED RETURN**, including the proper forms, to exclude the income.
- You should seek advice immediately regarding this issue. Some elections must be made within 6 months of the due date of the return.
What if I Filed an Extension for My 2022 Return?

- You should work with your tax professional and provide them with the new forms *and the letter*.
- You will determine whether you qualify for relief.
- Your return will be due October 16, 2023.
Will I Now Be Ineligible for Future USDA Loans and Programs?

- The assistance provided by IRA does not trigger ineligibility under the statutory provision that prohibits FSA from making direct and guaranteed loans to anyone who has received prior debt forgiveness.
- Applying a Section 108 exclusions will not affect your eligibility for future USDA loan programs.
Do These Options Apply to Anyone Who Received IRA Loan Relief?

- No. Only *direct loan borrowers* received the Form 1099-C. Guaranteed loan borrowers must continue to report the amount shown on Form 1099-G as income.
Are There Any Tools to Help with Tax Liability?

- Work with your tax adviser to consider several options, including:
  - Depreciation and Section 179 options
  - Income Averaging potential
What if I Can’t Pay?

- You may qualify for a payment plan or installment agreement with the IRS.
- Visit https://www.irs.gov/taxtopics/tc202 to learn more about payment plans.

- Do not avoid filing your return because you cannot pay. The penalties will increase.
Do I Have Any Other Options?

- Borrowers may retroactively decline IRA payments. Those wishing to do so, **should consult with an expert to ensure they understand the impact of this option.**
- To decline, they may contact their local office or the FSA Call Center at 1-877-508-8364 before December 31, 2023.