

VA Financial Policies and Procedures
Reporting Discharge of Indebtedness to IRS

CHAPTER 1J

0101 OVERVIEW.....	2
0102 POLICIES	2
0103 AUTHORITY AND REFERENCES	2
0104 ROLES AND RESPONSIBILITIES	3
0105 PROCEDURES.....	3
0106 DEFINITIONS.....	5
0107 RESCISSIONS.....	5
0108 QUESTIONS	5

0101 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policy and procedures relating to reporting discharge of indebtedness to the Internal Revenue Service (IRS) as required by 26 U.S.C. 6050(p). This chapter does not apply to benefit debts; see Volume XII ,Chapter 6 for information on benefit debts.

010101 AUTHORITY FOR REPORTING DISCHARGE OF DEBTS TO IRS. Taxpayers have the primary responsibility to report a discharge of indebtedness, which the IRS defines as income per IRS Code 26 U.S.C. 61(a)(12). However, VA is required to provide information to the IRS on certain discharged or forgiven debts where the amount exceeds \$600.

010102 ACTIONS FOR REPORTING DISCHARGE OF DEBTS TO IRS. VA will report to the IRS certain nonbenefit debts under its jurisdiction which meet criteria for discharged indebtedness. Discharge of indebtedness is further defined by 31 C.F.R. 903.5(a) and 38 C.F.R. 1.944.

0102 POLICIES

010201 AUTHORITY FOR REPORTING DISCHARGE OF DEBTS TO IRS. VA will report nonbenefit debts exceeding \$600 that are discharged for a person who has defaulted on a direct home loan, a vendor who has a debt closed out and for services performed for ineligible hospitalization, humanitarian, or emergency care to IRS. For further information as to the benefit nature relating to ineligible hospitalization, humanitarian, or emergency care, refer to Volume XII Chapter 5, *Medical Care Debts*.

010202 ACTIONS FOR REPORTING DISCHARGE OF DEBTS TO IRS.

A. VA will report the discharge of indebtedness as income in the calendar year in which an obligation is closed out, satisfied at less than face value (compromised), or forgiven (waiver).

B. The Chief of the Finance Activity will forward reports on 1099-C forms prepared by VA facilities to the Cash and Debt Management Division in VA's Central Office (VACO) for inclusion in the Department of the Treasury's Report on Receivables Due from the Public (TROR).

0103 AUTHORITY AND REFERENCES

010301 [26 U.S.C. 6050\(p\), Return Relating to the Cancellation of Indebtedness by Certain Entities](#)

010302 [26 U.S.C. 61, Information and Returns](#)

010303 [31 U.S.C. 3711\(g\), Collection and Compromise](#)

010304 26 C.F.R. 1.6050P-1, Information Reporting for Discharge of Indebtedness by Certain Entities

010305 31 C.F.R. 903.5 Discharge of Indebtedness; Reporting Requirements

010306 38 C.F.R. 1.944, Discharge of Indebtedness; Reporting Requirements

0104 ROLES AND RESPONSIBILITIES

010401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

010402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

0105 PROCEDURES

010501 AUTHORITY FOR REPORTING DISCHARGE OF DEBTS TO IRS.

A. VA does not make determinations regarding a taxpayer's responsibility to declare discharged indebtedness for tax purposes. The primary responsibility for such reporting is the taxpayer's, based on IRS Code (26 U.S.C. 61(a)(12)), which defines the discharge of indebtedness as income. However, VA is required to provide information to the IRS and the debtor on certain discharged or forgiven debts where the amount exceeds \$600.

B. VA nonbenefit debts over \$600 are reportable to the IRS when written off except when excluded by law to include the following exceptions:

1. Debts as a result of participation in a VA benefit or home loan program;
2. Medical care and pharmacy copayments;
3. Debts where the payment of funds has already been reported to the IRS for income tax purposes, i.e., salary or payments reported on IRS Form 1099 MISC;
4. Discharge of indebtedness due to death; and
5. Debts which are in dispute and are written off (e.g., a non benefit debt disputed by an individual/vendor and subsequently written off because VA could not substantiate the debt).

010502 ACTIONS FOR REPORTING DISCHARGE OF DEBTS TO IRS.

A. VA will take all appropriate steps to collect the debt in accordance with 31 U.S.C. 3711(g), including, as applicable, administrative offset, tax refund offset, Federal salary offset, referral to Treasury, Treasury-designated debt collection centers or private collection contractors, credit bureau reporting, wage garnishment, litigation and foreclosure before discharging a delinquent debt (also referred to as a close out of the debt). VA may have Treasury or a Treasury-designated debt collection center file a discharge report to IRS on VA's behalf.

B. Income from the discharge of indebtedness arises in the calendar year in which an obligation is either closed out, is satisfied at less than face value (compromised), or is forgiven (waiver).

C. The Chief of the Finance Activity will report to IRS certain nonbenefit debts under his or her jurisdiction which meet all of the following criteria for "discharged indebtedness."

1. The debtor may be an individual or a vendor.
2. The debt is determined to be uncollectible and is written off, waiver is granted, or some form of formal compromise agreement is reached.
3. The amount of the debt is \$600 or more (amount includes principal, interest and other late payment charges).
4. The obligation is not discharged in bankruptcy.

D. When a debt is discharged and meets the requirements established in 010502C1, VA will complete Form 1099-C, Cancellation of Debt, forward it to the IRS on Form 1096, and provide a copy of the 1099-C to the debtor.

1. Form 1099-C instructions may be located on the IRS website or the local IRS office may be contacted in December or January of each year for current instructions.
2. Form 1096, Annual Summary and Transmittal of US Information Returns, will be used to transmit Form 1099-C to the IRS. Form 1096, along with copy "A" of Form 1099-C, will be mailed to the IRS by February 28 of each year.

E. Treasury Report on Receivables 1099-C Reporting Requirement. To meet Treasury reporting requirements on reportable discharged debts, the Chief of the Finance Activity will maintain a record of debts where 1099-Cs have been issued and prepare a report, which is due in VACO 22 calendar days after the second quarter ends. Required data on the report should include the date of the 1099-C issuance, dollar amount and appropriation. The reports should be sent to the Cash and Debt Management Division (047GC1). Negative replies are not required.

0106 DEFINITIONS

010601 Close-out. Occurs when an agency, after determining additional future collection efforts on a debt would be futile, reports the amount of a terminated debt to the Internal Revenue Service (IRS) as potential income to the debtor on Form 1099-C, Cancellation of Debt. For debts not reportable to IRS, close-out never actually occurs.

010602 Compromise. An offer and acceptance of a partial payment in settlement and full satisfaction of the offeror's indebtedness, as it exists at the time the offer is made. It is a final settlement, binding on the parties to the compromise, unless procured by fraud, misrepresentation of a material fact or mutual mistake of fact.

010603 Discharge. In accordance with 31 C.F.R. 903.5(a) and 38 C.F.R. 1.944(a), a "discharge" of a debt is the same as a "close-out" of the debt.

010604 Termination of Collection Effort. Refers to a decision made to cease active collection action on a debt, in accordance with criteria set out in the Federal Claims Collection Standards, because such action is not economically worthwhile or is otherwise inappropriate.

010605 Treasury's Report on Receivables Due from the Public (TROR). The TROR serves as a management report used to inform Federal decision makers of the gross book value of the receivables owed to Federal agencies and the status of the Federal Government's debt portfolio.

010606 Waiver. A decision that conditions exist, under the applicable statutes (38 U.S.C. 5302 and 5 U.S.C. 5584) and implementing regulations (38 CFR 1.955-1.969, 17.105), that prohibit recovery by VA of certain debts as defined in the statutes and regulations, including interest and other late payment charges assessed on such debts.

010607 Write-off. Write-off of a debt should occur when the agency determines the debt has no value for accounting purposes. All debt will be reserved for in the allowance account, and all write-offs will be made through the allowance account. Under no circumstances are debts to be written off directly to expense.

0107 RESCISSIONS

010701 VA Handbook 4800.11, Reporting Discharge of Indebtedness to the Internal Revenue Service (IRS)

0108 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA

VHA Accounting Policy (Outlook)

VBA
All Others

VAVBAWAS/CO/FINREP (Outlook)
OFP Accounting Policy (Outlook)