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Regulations: Removal of 36-month non-payment testing period, for deemed cancellation of debt on Form 1099-C

The Treasury Department and IRS today released for publication in the Federal Register final regulations (T.D. 9793) that finalize rules that no longer require Form 1099-C, “Cancellation of Debt,” to be filed at the end of a 36-month non-payment testing period for a deemed discharge of indebtedness.

Today’s [final regulations](#) [PDF 224 KB] finalize rules that were proposed in October 2014 “without significant modification.”

Summary

Regulations under section 6050P have provided a list of identifiable events that give rise to the discharge of indebtedness reporting requirements—one of which has been a 36-month non-payment testing period that triggers an information reporting requirement for a discharge of indebtedness by certain entities (e.g., banks, credit unions, and financial institutions).

Because there was confusion as to whether the receipt of a Form 1099-C represents cancellation of debt that must be included in gross income, regulations were proposed in 2014 to remove the 36-month non-payment testing period as an identifiable event. The proposed regulations generally provided that information reporting under section 6050P generally is to coincide with the actual discharge of a debt.

To clarify the situation, the regulations remove the 36-month rule. The change is effective for Forms 1099-C required to be filed with the IRS and furnished to debtors after December 31, 2016. Thus, the elimination of the 36-month rule is immediately effective and applies to Forms 1099-C for calendar year 2016 reporting (required to be filed in 2017).

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