



SBA Information Notice

TO: All Employees

CONTROL NO.: 5000-947

SUBJECT: Reporting Discharged Debt to IRS
for Calendar Year 2004

EFFECTIVE: 2/2/2005

Each January, the Agency is required to report information to the Internal Revenue Service (IRS) for each debtor that had a principal loan balance greater than \$600 canceled or discharged. The amount of discharged debt reported may be considered by IRS to be taxable income to the debtor. This reporting process is handled in accordance with directives and regulations issued by the Department of the Treasury, IRS, and the Office of Management and Budget (in OMB Circular A-129, Managing Federal Credit Programs).

For this year's 1099-C process, the Agency reported to the IRS almost 4,000 loans representing over \$254 million in uncollectible debt. Compromised debts are reported the year after the loan is marked "compromised" in SBA's database, and other loans are reported if there has been no collection activity for six years. SBA reports both business and disaster loans in this program. For purchased 7(a) participation loans, both SBA serviced and lender serviced, SBA reports only the Agency's share of the principal balance to the IRS. The participating lender is responsible for reporting its share of the discharged debt. Only direct obligors are reported by SBA since IRS regulations do not consider guarantors to be debtors for purposes of 1099-C reporting. The IRS and the debtor will determine what, if any, income tax obligation may exist with respect to the discharge of debt by SBA.

For discharged loans reported to IRS, the message "**1099-C ISSUED**" will appear on screens PMQD04, 14 and 15. Each debtor whose discharged loan was reported to IRS receives a notice from SBA (Form 1544) containing the amount reported. The debtor is advised to take into consideration the amount of the discharge when filing tax returns. SBA does not provide advice on whether the cancelled debt constitutes taxable income; this is a matter solely between the debtor and IRS. The IRS and the debtor will determine what, if any, tax obligation may exist with respect to the discharge of debt by SBA.

SBA must not pursue further affirmative collection action on any loan that has been reported to IRS in the 1099-C process, except that a voluntary payment may be accepted by the Agency at any time (such as for the release of a lien). When a voluntary payment is received by SBA, the funds will be applied to reduce the interest accrued on the debt since this amount was not discharged. If the amount paid is substantial, the debtor's recourse is to file an amended tax return with IRS.

EXPIRES: 5/1/2005

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SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete
Must be accompanied by SBA Form 58

The 1099-C reporting process takes place each year. As with several other SBA programs, it is important that field 073 of LAUD13 be regularly updated with the most current information to assure the proper reporting of debt cancellation or discharge. If a note has been sold, please use code "47" to prevent the issuance of a 1099-C notice by SBA. Use code "66" if there is a lien or mortgage still in existence on the loan collateral that may provide future recovery for SBA.

If you have any questions concerning the 1099-C reporting process, you may contact Shirley Ramseur in the Office of Portfolio Management at 202-205-7523, fax 202-481-5604.

James E. Rivera
Associate Administrator
for Financial Assistance