

# Instructions for Form 982

(Rev. January 2020)



Department of the Treasury  
Internal Revenue Service

## Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment) (For use with Form 982 (Rev. March 2018))

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Future Developments

For the latest information about developments related to Form 982 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form982](https://www.irs.gov/Form982).

#### What's New

##### Discharge of qualified principal residence indebtedness before 2021.

Qualified principal residence indebtedness can be excluded from income for discharges before January 1, 2021.

#### Purpose of Form

Generally, the amount by which you benefit from the discharge of indebtedness is included in your gross income. However, under certain circumstances described in section 108, you can exclude the amount of discharged indebtedness from your gross income.

You must file Form 982 to report the exclusion and the reduction of certain tax

attributes either dollar for dollar or 33<sup>1</sup>/<sub>3</sub> cents per dollar (as explained later).



*Certain individuals may need to complete only a few lines on Form 982. For example, if you are completing this form because of a discharge of indebtedness on a personal loan (such as a car loan or credit card debt) or a loan for the purchase of your principal residence, follow the chart, later, to see which lines you need to complete. Also, see Pub. 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments, for additional information.*

#### Definitions

**Title 11 case.** A title 11 case is a case under title 11 of the United States Code (relating to bankruptcy), but only if you are under the jurisdiction of the court in the case and the discharge of indebtedness is granted by the court or is under a plan approved by the court.



*You may know your title 11 case by the chapter (such as, for example, chapter 7, 11, 12, or 13) under title 11 that you sought debt relief.*

**Discharge of Indebtedness.** The term *discharge of indebtedness* conveys forgiveness of, or release from, an obligation to repay.


#### When To File

File Form 982 with your federal income tax return for a year a discharge of indebtedness is excluded from your income under section 108(a).

The election to reduce the basis of depreciable property under section 108(b) (5) and the election made on line 1d of *Part I* regarding the discharge of qualified real property business indebtedness must be made on a timely filed return (including extensions) and can be revoked only with the consent of the IRS.

If you timely filed your tax return without making either of these elections, you can still make either election by filing an amended return within 6 months of the due date of the return (excluding extensions). Write "Filed pursuant to section 301.9100-2" on the amended return and file it at the same place you filed the original return.

### How To Complete the Form

IF the discharged debt you are excluding is . . .	THEN follow these steps . . .
Qualified principal residence indebtedness	<ol style="list-style-type: none"><li>1. Be sure to read the definition of qualified principal residence indebtedness in <a href="#">Line 1e</a>, later. Part or all of your debt may not qualify for the exclusion on line 1e but may qualify for one of the other exclusions.</li><li>2. Check the box on line 1e. See <a href="#">Line 1e</a>, later, before checking the box if the debt was discharged after 2017.</li><li>3. Include on line 2 the amount of discharged qualified principal residence indebtedness that is excluded from gross income. Any amount in excess of the excluded amount may result in taxable income. See Pub. 4681 for more information. If you disposed of your residence, you may also be required to recognize gain on its disposition. For details, see Pub. 523, Selling Your Home.</li><li>4. If you continue to own your residence after the discharge, enter on line 10b the smaller of (a) the amount of qualified principal residence indebtedness included on line 2 or (b) the basis (generally, your cost plus improvements) of your principal residence.</li></ol> <p> <b>CAUTION</b> <i>If the discharge is in a title 11 case, you can't check box 1e. You must check box 1a and complete the form as discussed later under A nonbusiness debt. If you are insolvent (and not in a title 11 case), you can elect to follow the insolvency rules by checking box 1b instead of box 1e and completing the form as discussed later under A nonbusiness debt.</i></p>

## How To Complete the Form (cont.)

IF the discharged debt you are excluding is . . .	THEN follow these steps . . .
A nonbusiness debt (other than qualified principal residence indebtedness, such as a car loan or credit card debt)	<p>Follow these instructions if you don't have any of the tax attributes listed in <i>Part II</i> (other than a basis in nondepreciable property). Otherwise, follow the instructions for <i>Any other debt</i>, later.</p> <ol style="list-style-type: none"> <li>1. Check the box on line 1a if the discharge was made in a <i>title 11 case</i> (see <i>Definitions</i>, earlier) or the box on line 1b if the discharge occurred when you were <i>insolvent</i> (see <i>Line 1b</i>, later).</li> <li>2. Include on line 2 the amount of discharged nonbusiness debt that is excluded from gross income. If you were insolvent, don't include more than the excess of your liabilities over the fair market value of your assets.</li> <li>3. Include on line 10a the smallest of (a) the basis of your nondepreciable property, (b) the amount of the nonbusiness debt included on line 2, or (c) the excess of the aggregate bases of the property and the amount of money you held immediately after the discharge over your aggregate liabilities immediately after the discharge.</li> </ol>
Any other debt	<p>Use <i>Part I</i> of Form 982 to indicate why any amount received from the discharge of indebtedness should be excluded from gross income and the amount excluded.</p> <p>Use <i>Part II</i> to report your reduction of tax attributes. The reduction must be made in the following order unless you check the box on line 1d for qualified real property business indebtedness or make the election on line 5 to reduce basis of depreciable property first.</p> <ol style="list-style-type: none"> <li>1. Any net operating loss (NOL) for the tax year of the discharge (and any NOL carryover to that year) (dollar for dollar);</li> <li>2. Any general business credit carryover to or from the tax year of the discharge (33<sup>1</sup>/<sub>3</sub> cents per dollar);</li> <li>3. Any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge (33<sup>1</sup>/<sub>3</sub> cents per dollar);</li> <li>4. Any net capital loss for the tax year of the discharge (and any capital loss carryover to that tax year) (dollar for dollar);</li> <li>5. The basis of property (dollar for dollar);</li> <li>6. Any passive activity loss (dollar for dollar) and credit (33<sup>1</sup>/<sub>3</sub> cents per dollar) carryovers from the tax year of the discharge; and</li> <li>7. Any foreign tax credit carryover to or from the tax year of the discharge (33<sup>1</sup>/<sub>3</sub> cents per dollar).</li> </ol> <p>Use <i>Part III</i> to exclude from gross income under section 1081(b) any amounts of income attributable to the transfer of property described in that section.</p>

## Specific Instructions

### Part I



*The time for making a section 108(i) election has passed. If you made an election under section 108(i) to defer income from the discharge of business debt arising from the reacquisition of a debt instrument in 2009 or 2010, don't report the amount deferred under the election in lines 1a through 1d and line 2.*

### Line 1b

The insolvency exclusion doesn't apply to any discharge that occurs in a title 11 case. It also doesn't apply to a discharge of qualified principal residence indebtedness (see *Line 1e*, later) unless you elect to have the insolvency exclusion apply instead of the exclusion for qualified principal residence indebtedness.

Check the box on line 1b if the discharge of indebtedness occurred while you were insolvent. You were insolvent to the extent that your liabilities exceeded the fair market value (FMV) of your assets immediately before the discharge. For

details and a worksheet to help calculate insolvency, see Pub. 4681.

**Example.** You were released from your obligation to pay your credit card debt in the amount of \$5,000. The FMV of your total assets immediately before the discharge was \$7,000 and your liabilities were \$10,000. You were insolvent to the extent of \$3,000 (\$10,000 of total liabilities minus \$7,000 of total assets). Check the box on line 1b and include \$3,000 on line 2.

### Line 1c

Check this box if the income you exclude is from the discharge of qualified farm indebtedness. The exclusion relating to qualified farm indebtedness doesn't apply to a discharge that occurs in a title 11 case or to the extent you were insolvent.

*Qualified farm indebtedness* is the amount of indebtedness incurred directly in connection with the trade or business of farming. In addition, 50% or more of your aggregate gross receipts for the three tax years preceding the tax year in which the discharge of such indebtedness occurs must be from the trade or business of farming. For more information, see sections 108(g) and 1017(b)(4).

The discharge must have been made by a qualified person. Generally, a *qualified person* is an individual, organization, etc., who is actively and regularly engaged in the business of lending money. This person can't be related to you, be the person from whom you acquired the property, or be a person who receives a fee with respect to your investment in the property. A qualified person also includes any federal, state, or local government or agency or instrumentality thereof.

If you checked line 1c and didn't make the election on line 5, the debt discharge amount will be applied to reduce the tax attributes in the order listed on lines 6 through 9. Any remaining amount will be applied to reduce the tax attributes in the order listed on lines 11a through 13.

You can't exclude more than the total of your (a) tax attributes (determined under section 108(g)(3)(B)) and (b) basis of property used or held for use in a trade or business or for the production of income. Any excess is included in income.

## Line 1d

If you check this box, the discharge of qualified real property business indebtedness is applied to reduce the basis of depreciable real property on line 4. The exclusion relating to qualified real property business indebtedness doesn't apply to a discharge that occurs in a title 11 case or to the extent you were insolvent.

**Qualified real property business indebtedness** is indebtedness (other than qualified farm indebtedness) that (a) is incurred or assumed in connection with real property used in a trade or business, (b) is secured by that real property, and (c) with respect to which you have made an election under this provision. This provision doesn't apply to a corporation (other than an S corporation).

Indebtedness incurred or assumed after 1992 isn't qualified real property business indebtedness unless it is either (a) debt incurred to refinance qualified real property business indebtedness incurred or assumed before 1993 (but only to the extent the amount of such debt doesn't exceed the amount of debt being refinanced) or (b) qualified acquisition indebtedness.

**Qualified acquisition indebtedness** is (a) debt incurred or assumed to acquire, construct, reconstruct, or substantially improve real property that is secured by such debt and (b) debt resulting from the refinancing of qualified acquisition indebtedness to the extent the amount of such debt doesn't exceed the amount of debt being refinanced.

You can't exclude more than the excess of the outstanding principal amount of the debt (immediately before the discharge) over the net FMV (as of that time) of the property securing the debt reduced by the outstanding principal amount of other qualified real property business indebtedness secured by that property (as of that time). The amount excluded is further limited to the aggregate adjusted basis (as of the first day of the next tax year or, if earlier, the date of disposition) of depreciable real property (determined after any reductions under sections 108(b) and (g)) you held immediately before the discharge (other than property acquired in contemplation of the discharge). Any excess is included in income.


## Line 1e

Only check the box on line 1e if the income you exclude is from discharge of qualified principal residence indebtedness and one of the following applies.

- The debt was discharged before 2021.

- The debt was discharged after 2020 and the discharge is subject to an arrangement that was entered into and evidenced in writing before January 1, 2021.

Also, do not check box 1e if the discharge occurs in a title 11 case. You must check the box on line 1a and not this box. If you are insolvent (and not in a title 11 case), you can elect to follow the insolvency rules by checking box 1b instead of checking box 1e. For more information, see Pub. 4681.

 **TIP** If you do check box 1e, be sure you complete line 2 (and line 10b if you continue to own the residence after discharge).

**Principal residence.** Your principal residence is your *main home*, which is the home where you ordinarily live most of the time. You can have only one main home at any one time.

**Qualified principal residence indebtedness.** This indebtedness is a mortgage you took out to buy, build, or substantially improve your main home. It also must be secured by your main home. If the amount of your original mortgage is more than the cost of your main home plus the cost of any substantial improvements, only the debt that is **not** more than the cost of your main home plus improvements is qualified principal residence indebtedness. Any debt secured by your main home that you use to refinance qualified principal residence indebtedness is treated as qualified principal residence indebtedness, but only up to the amount of the old mortgage principal just before the refinancing. Any additional debt you incurred to substantially improve your main home is also treated as qualified principal residence indebtedness.

**Amount eligible for the exclusion.** The exclusion applies only to debt discharged after 2006 and in most cases before 2021. The maximum amount you can treat as qualified principal residence indebtedness is \$2 million (\$1 million if married filing separately). You can't exclude from gross income discharge of qualified principal residence indebtedness if the discharge was for services performed for the lender or on account of any other factor not directly related to a decline in the value of your residence or to your financial condition.

**Ordering rule.** If only a part of a loan is qualified principal residence indebtedness, the exclusion applies only to the extent the amount discharged exceeds the amount of the loan (immediately before the discharge) that is **not** qualified principal residence indebtedness. For example, assume your main home is secured by a debt of \$1 million, of which \$800,000 is qualified

principal residence indebtedness. If your main home is sold for \$700,000 and \$300,000 of debt is discharged, only \$100,000 of the debt discharged can be excluded (the \$300,000 that was discharged minus the \$200,000 of nonqualified debt). The remaining \$200,000 of nonqualified debt may qualify in whole or in part for one of the other exclusions, such as the insolvency exclusion.

## Line 2

Enter the total amount excluded from your gross income due to discharge of indebtedness under section 108. If you checked any box on lines 1b through 1e, don't enter more than the limit explained in the instructions for those lines. If you checked line 1a, 1b, or 1c, this amount won't necessarily equal the total reductions on lines 5 through 13 (excluding line 10b) because the debt discharge amount may exceed the total tax attributes. If you checked line 1e, this amount won't necessarily equal the total basis reduction on line 10b (which is required only if you continue to own the residence after the discharge).

See section 382(l)(5) for a special rule regarding a reduction of a corporation's tax attributes after certain ownership changes.

## Line 3

You can elect under section 1017(b)(3)(E) to treat all real property held primarily for sale to customers in the ordinary course of a trade or business as if it were depreciable property. This election doesn't apply to the discharge of qualified real property business indebtedness. To make the election, check the "Yes" box.

## Part II

### Basis Reduction

If you check any of the boxes on lines 1a through 1c, you can elect, by completing line 5, to apply all or a part of the debt discharge amount to first reduce the basis of depreciable property (including property you elected on line 3 to treat as depreciable property). Any balance of the debt discharge amount will then be applied to reduce the tax attributes in the order listed on lines 6 through 13 (excluding line 10b). You must attach a statement describing the transactions that resulted in the reduction in basis under section 1017 and identifying the property for which you reduced the basis. If you don't make the election on line 5, complete lines 6 through 13 (excluding line 10b) to reduce your attributes. See section 1017(b)(2) and (c) for limitations of reductions in basis on line 10a.

## Line 7

If you have a general business credit carryover to or from the tax year of the discharge, you must reduce that carryover by 33 $\frac{1}{3}$  cents for each dollar excluded from gross income. See Form 3800, General Business Credit, for more details on the general business credit, including rules for figuring any carryforward or carryback.

## Line 10a

In the case of a title 11 case or insolvency, the reduction in basis is limited to the aggregate of the basis of your property immediately after the discharge over the aggregate of your liabilities immediately after the discharge. However, this limit doesn't apply to a reduction in basis reported on line 5 pursuant to section 108(b)(5).

## Line 10b

If box 1e is checked and you continue to own the residence after discharge, enter the smaller of:

- That part of line 2 that is attributable to the exclusion of qualified principal residence indebtedness, or
- The basis of your main home.

## Part III

### Adjustment to Basis

Unless it specifically states otherwise, the corporation, by filing this form, agrees to

apply the general rule for adjusting the basis of property (as described in Regulations section 1.1082-3(b)).

If the corporation desires to have the basis of its property adjusted in a manner different from the general rule, it must attach a request for variation from the general rule. The request must show the precise method used and the allocation of amounts.

Consent to the request for variation from the general rule will be effective only if it is incorporated in a closing agreement entered into by the corporation and the Commissioner of Internal Revenue under the rules of section 7121. If no agreement is entered into, then the general rule will apply in determining the basis of the corporation's property.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You aren't required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may

become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown as follows: **Recordkeeping**, 5 hr., 58 min.; **Learning about the law or the form**, 2 hr., 34 min.; **Preparing and sending the form to the IRS**, 2 hr., 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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