

Strafford

Presenting a live 110-minute teleconference with interactive Q&A

Cancellation of Debt Income: Tax Consequences

Navigating Section 108 Issues With Debt Discharge and Forgiveness,
Loan Modifications, Foreclosures and Short Sales

TUESDAY, APRIL 24, 2012

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Stephen J. Dunn, Partner, DUNN Counsel, Troy, Mich.

David N. Stonehill, Principal Attorney, David N. Stonehill Co., Cincinnati

Attendees seeking CPE credit must listen to the audio over the telephone.

Please refer to the instructions emailed to registrants for dial-in information. Attendees can still view the presentation slides online. If you have any questions, please contact Customer Service at 1-800-926-7926 ext. 10.

EXHIBIT A

Supplemental Statement To Form 1040
John (SSN XXX-XX-XXXX) and Abbigail (SSN XXX-XX-XXXX) Adams
Year Ended December 31, 2012

Colossus Corp. issued a Form 1099-MISC to taxpayer John Adams and filed a copy of it with the Internal Revenue Service for a transaction in which Colossus Corp. acquired Mr. Adams' interest in Surreal Circuits, LLC. At the time of the transaction, Mr. Adams' interest in Surreal Circuits, LLC was worth \$100,000. In connection with the transaction, Colossus Corp. forgave debt in the amount of \$5,000,000 owing by Mr. Adams to Colossus Corp. Transaction was closed on April 20, 2012.

Mr. Adams did not realize cancellation of indebtedness income in connection with the foregoing transaction, and the Adams' 2012 Form 1040 reports no cancellation of indebtedness income for the transaction, because, at the time of the transaction, Mr. Adams was insolvent within the meaning of IRC § 108(a)(1)(B) and 108(d)(3), as follows:

Assets	Liabilities	
	Fair Market Value	Amount
House	\$200,000	Debts owing to Colossus Corp. \$5,000,000
Interest in Surreal Circuits, LLC	100,000	Mortgage indebtedness on house-owing to Beneficent Bank 300,000
Automobiles	30,000	Balance owing on auto loans 50,000
Household furnishings	5,000	
Other assets	<u>10,000</u>	Other liabilities <u>20,000</u>
	Total <u>\$345,000</u>	Total <u>\$5,320,000</u>

NOTE: Taxpayer should attach as much pertinent documentation as possible including, for example, the following:

1. Recent tax bill showing current assessed value of house.
2. Recent home mortgage statement.
3. Documents from the Colossus Corp.-Surreal Circuits, LLC transaction.

EXHIBIT B

Supplemental Statement To Form 1040 John (SSN XXX-XX-XXXX) and Abbigail (SSN XXX-XX-XXXX) Adams Year Ended December 31, 2012

Colossus Corp. issued a Form 1099-MISC to taxpayer John Adams and filed a copy of it with the Internal Revenue Service for a transaction in which Colossus Corp. acquired Mr. Adams' interest in Surreal Circuits, LLC. At the time of the transaction, Mr. Adams' interest in Surreal Circuits, LLC was worth \$100,000. In connection with the transaction, Colossus Corp. forgave debt in the amount of \$5,000,000 owing by Mr. Adams to Colossus Corp. Transaction was closed on April 20, 2012.

Mr. Adams did not realize cancellation of indebtedness income in connection with the foregoing transaction, and the Adams' 2012 Form 1040 reports no cancellation of indebtedness income for the transaction, because Mr. Adams' \$5,000,000 debt owing to Colossus Corp. was a contested and doubtful debt which the parties compromised. See *N. Sobel v. Commissioner*, 40 B.T.A. 1263 (1939); *Zarin v. Commissioner*, 916 F.2d 110 (3d Cir. 1990); *Estate of Smith v. Commissioner*, 198 F.3d 515 (5th Cir. 1999).

Mr. Adams had claims against Colossus Corp. for breach of contract and misappropriation of trade secrets. Mr. Adams asserted his claims in *John Adams v. Colossus Corp.*, U.S. District Court for the Eastern District of Michigan Case No. XX-XXXXX-XX. The parties settled all of their claims against each other by a Mutual Settlement Agreement and Release of all Claims dated April 20, 2012. The United States District Court for the Eastern District of Michigan entered a Dismissal of the action on May 15, 2012.