

<b>DEPARTMENTAL REGULATION</b>		<b>NUMBER:</b> 2130-004
<b>SUBJECT:</b> IRS Reporting Requirements on Payments and Discharges of Indebtedness	<b>DATE:</b> November 27, 2006	
	<b>OPI:</b> Office of the Chief Financial Officer	

## 1 PURPOSE

This regulation updates the Departmental policy on reporting payments and discharges of indebtedness to the Internal Revenue Service (IRS).

## 2 SPECIAL INSTRUCTIONS

This regulation supercedes Departmental Regulation 2130-004, IRS Reporting Requirements on Payments and Discharges of Indebtedness, dated March 4, 1997.

## 3 POLICY

- a USDA agencies must report to the IRS payments of \$600 or more in any taxable year.
- b USDA agencies must report to the IRS discharges of indebtedness of \$600 or more during any calendar year.

## 4 BACKGROUND

Chapter 61, Subchapter A, Part III, Subpart B of the Internal Revenue Code (IRC), 26 U.S.C., Sections 6041 - 6050N, requires agencies to report to the IRS payments of \$600 or more that agencies have made in any taxable year. These payments include those to other parties for gains, profits, income, rents, commissions, fees, awards, royalties, salaries, wages, premiums, annuities, and other forms of compensation for services provided by non-employees.

Section 13252 of the Omnibus Budget Reconciliation Act of 1993 amended the IRC to add Section 6050P to the Code. Section 6050P requires financial entities, including Federal agencies, to report discharges of indebtedness of

\$600 or more during a calendar year except for discharges of consumer debt in bankruptcy settlements.

Agencies are required to report to the IRS the balance outstanding, including principal, administrative costs (but not contingency fees), and penalties for non-lending transactions. For lending transactions, only the principal must be reported. In both lending and non-lending transactions, reporting interest is at the discretion of the agency.

Consumer debts discharged in bankruptcy are not required to be reported to the IRS. Consumer indebtedness discharged in bankruptcy is required to be reported only if the creditor knows that the debtor incurred the indebtedness for business or investment purposes.

## **5 AUTHORITIES AND REFERENCES**

- a 26 U.S.C. 6041 through 6050N - Information Concerning Transaction with other persons
- b 26 USC 6050P - Returns relating to the cancellation of indebtedness by certain entities
- c Department of the Treasury, "Managing Federal Receivables," May 2005
- d Office of Management and Budget (OMB) Circular A-129, "Policies Federal Credit Programs and Non-Tax Receivables," November, 2000

## **6 USING FORMS 1099**

Agencies must use Form 1099-C, Cancellation of Debt to report discharges of indebtedness to the IRS by February 28 of each year or if reporting electronically by March 31 of each year. For guidance on using Form 1099 refer to the IRS Web site at [www.irs.gov/formspubs](http://www.irs.gov/formspubs).

## **7 RESPONSIBILITIES**

- a Office of the Chief Financial Officer (OCFO) will:
  - (1) Establish policy for agencies for IRS reporting requirements;
  - (2) Represent USDA as the central point of contact on matters related to debt collection with OMB and the Department of Treasury;

- (3) Work with the agencies to establish and maintain cost effective debt collection processes and procedures; and
  - (4) Communicate to agencies information related to regulations, requirements and procedures promulgated by OMB and Treasury.
- b Agencies will:
- (1) Obtain Employer Identification Numbers  
  
Each agency reporting to the IRS must obtain its own Employer Identification Number and establish procedures to report, reconcile, and answer inquiries from the IRS and 1099 recipients.
  - (2) Report Payments to the IRS:
    - (a) Agencies must determine which payments qualify for IRS reporting and must properly report them;
    - (b) Agencies issuing their own payments must report to the IRS pertinent information on payments in the amount of \$600 or more; and
    - (c) Agencies must include Taxpayers Identification Numbers (TINs) on all applicable payments.
  - (3) Report Discharges of Indebtedness/Close Out to the IRS:
    - (a) Agencies must report to the IRS all discharges of indebtedness of \$600 or more during a calendar year;
    - (b) Agencies must report the outstanding principal, administrative costs (but not contingency fees), and penalties for non-lending transactions. For lending transactions, agencies need only report principal amounts;
    - (c) Agencies are not required to report consumer debts discharged in bankruptcy unless debts are for business/investment purposes; and
    - (d) Agencies must include TINs on all discharges of indebtedness.
  - (4) Develop and implement internal agency strategies, directives and procedures reflecting debt collection practices and controls consistent with statues, regulations, policies, and guidance in Sections 3 (Policy), 5 ( Authorities and References) and 7 Responsibilities);

- (5) Review debt collection practices, techniques and controls periodically to determine compliance with governing statutes, regulations, policies, standards and goals;
- (6) Inform OCFO of agency changes to debt collection policies and procedures; and
- (7) Confer with OCFO on controversial issues and problems prior to discussions with OMB and Treasury.

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