

<b>DEPARTMENTAL REGULATION</b>		Number: 2130-4
SUBJECT: IRS Reporting Requirements on Payments and Discharges of Indebtedness	DATE: March 4, 1997	
	OPI: Office of the Chief Financial Officer	

1 PURPOSE

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

2 BACKGROUND

A recent audit indicated that USDA agencies are not fully complying with IRS Form 1099 reporting requirements. Agencies are not reporting all applicable payments and all discharges of indebtedness over \$600 in any taxable year to the IRS.

Chapter 61, Subchapter A, Part III, Subpart B of the Internal Revenue Code (the Code), 26 U.S.C., Sections 6041 - 6050N, requires agencies to report to the Internal Revenue Service payments of \$600 or more (except those to corporations) 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 (the Act) amended the Internal Revenue Code of 1986 (the Code) 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 any calendar year.

Treasury's "Managing Federal Receivables" requires that the balance outstanding, including principal, administrative costs, penalties, and discharged interest be reported to IRS.

Consumer debts discharged in bankruptcy are not required to be reported to IRS. 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. Discharged penalties, fees, administrative costs, and fines on non-lending transactions must be reported.

### 3 AUTHORITIES

a Chapter 61, Sections 6041 through 6050, Title 26, of the Internal Revenue Code.

b 26 CFR, Parts 1 and 602

c Managing Federal Receivables, Asset Management Manual, Volume I, Department of Treasury, Financial Management Service, July 1994.

d OMB Circular A-129 (Revised), Policies for Federal Credit Programs and Non-Tax Receivables, January 1993.

### 4 SPECIAL INSTRUCTIONS

Departmental Regulation 2130-4, dated August 26, 1986, is hereby rescinded.

Refer to Departmental Regulation Number 2100-2 on Taxpayers' Identification Numbers.

### 5 DEFINITIONS

Corporation is a body of persons granted a charter legally recognizing them as a separate entity having its own rights, privileges, and liabilities distinct from those of its members.

Discharge of Indebtedness/Close Out is an event that occurs concurrently with or subsequent to any agency's decision to write-off a debt for which the agency has determined that future additional collection attempts would be futile.

Indebtedness is "any amount owed to an applicable financial entity, including principal, fees, interest, penalties, administrative costs and fines."

## 6 RESPONSIBILITIES

a The Office of the Chief Financial Officer (OCFO) is responsible for establishing Departmental policy and monitoring agency compliance with certain IRS reporting requirements.

b Agencies are responsible for:

### (1) Obtaining Employer Identification Number

Each agency reporting to IRS should obtain its own Employer Identification Number and establish procedures to report, reconcile, and answer inquiries from IRS and 1099 recipients.

### (2) Reporting Payments to IRS

Agencies must determine which administrative payments qualify for IRS reporting.

OCFO/NFC and agencies issuing their own payments must report to IRS applicable information on payments in the amount of \$600 or more (except for corporations).

All applicable payments must include Taxpayers Identification Numbers (TINs).

### (3) Reporting Discharges of Indebtedness/Close Out to IRS

Agencies must report to IRS all discharges of indebtedness of \$600 or more during a calendar year including discharged interest on loans and commercial bankruptcies. Agencies are not required to report consumer debts discharged in bankruptcy. Discharged penalties, fees, administrative

costs, and fines on non-lending transactions must be reported.

All discharges of indebtedness must include Taxpayers Identification Numbers (TINs).

(4) Using Forms 1099

Agencies must use Forms 1099 to report payments and discharges of indebtedness to IRS by February 28 of each year.