

Workout Tax Issues

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CODI – Background

- It is a general principle of U.S. tax law that a taxpayer does not recognize taxable income upon the receipt of loan proceeds because it is obligated to repay the loan.
- If the taxpayer is later relieved of its repayment obligation, this debt forgiveness results in an increase to the taxpayer's net worth.
- Accordingly, the taxpayer-borrower must recognize cancellation of debt income ("CODI") that is taxable, subject to certain exceptions and exclusions, upon the satisfaction of a debt instrument for an amount that is less than its adjusted issue price. Code § 61(a)(11); Treas. Reg. § 1.61-12(c)(2)(ii).
- Similar principles apply to debt that produces a tax deduction or tax basis in property on the assumption that it will be repaid.

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