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Will Modifying the Terms of a Debt Instrument Result in a Taxable Transaction?

Creditor's Rights Toolkit

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When a borrower struggles to meet the payment obligations of a debt instrument, the borrower and creditor may work together to modify some of the terms to give the borrower a little breathing room or provide the creditor with more security. What the parties may not realize is that modifications could result in a taxable exchange of the "old" (pre-modification) note for a "new" (modified) note.

This article will explore how modifying a debt instrument could lead to tax consequences for the debtor and creditor in a bankruptcy case. To access this article and read other insights from our Creditor's Rights Toolkit, please click here.

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