Taxation of Student Loan Forgiveness

26 U.S.C. § 108 (f)

HOUSE RESEARCH

Forgiven loans are generally subject to federal income taxes, because discharged debt is included in the Internal Revenue Code's definition of gross income. However, student debt discharged under some federal and state programs is excluded from income and not subject to taxation.

Minnesota conforms to the federal law with regard to the taxation of forgiven student loans, meaning that discharged debt that is subject to federal taxes is also subject to state taxes.

Some kinds of student loan forgiveness are not taxable under federal or Minnesota Law.

Loan forgiveness is exempted from the calculation of a taxpayer's gross income if the loan forgiveness was pursuant to a provision of the loan in which part or all of the loan would be forgiven if an individual worked in a certain profession for a certain period of time. Only some student loans qualify for this exemption—those issued by the federal government, a state government, certain public benefit corporations, or certain educational organizations.

Examples of Exempt Loan Forgiveness Programs
Federal law explicitly exempts from taxation student loan forgiveness provided through the following programs:

- Loan forgiveness provided through the National Health Service Corps Scholarship Program
- State loan forgiveness programs for health professionals, including the loan forgiveness and repayment programs administered by Minnesota's Department of Health

Other kinds of student loan forgiveness are subject to federal and Minnesota income taxes.

Loan forgiveness through the following federal programs is included in gross income and is therefore taxable. These programs are not limited to individuals who work for a certain period of time in a certain profession.

- Income-Contingent Repayment (ICR) and Income-Based Repayment (IBR) programs
- Pay-As-You-Earn (PAYE) and Revised Pay-As-You-Earn (REPAYE) programs

Student debt that is cancelled for other reasons will generally be taxable, unless it otherwise qualifies for exclusion. The following debt cancellations are taxable:

- Student debt cancelled due to the death or disability of a borrower;
- Student debt cancelled by an employer; and
- Student debt cancelled due to the closure of the educational institution.

Prepared by Sean Williams, House Research Department, Minnesota House of Representatives
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