

Taxability of Certain Loan Forgiveness and Discharge Provisions

Current rule: To qualify for tax-free treatment, for the cancellation of a loan, the loan must have been made by a qualified lender to assist in attending an eligible educational institution and contain a provision that all or part of the debt will be canceled if the borrower works:

- For a certain period of time,
- In certain professions, and
- For any of a broad class of employers.

Provision	Are Amounts Forgiven Currently Taxable?	Would Amounts Forgiven be Taxable Under GOP Tax Reform Act of 2014?	Would Amounts Forgiven be Taxable Under Obama FY 2015 Budget?
Forgiveness after certain number of years under income-dependent repayment plans	Yes	Yes	No
Public service loan forgiveness	No	Yes	No
Teacher loan forgiveness	No	Yes	No
Death and disability discharge	Yes	Yes	Yes
Other discharges – closed school, unpaid refunds, false certification, etc.	Yes	Yes	Yes

Note: In general, the Internal Revenue Code currently allows taxpayers to exclude canceled debt from their income to the extent that the taxpayer was insolvent immediately prior to the discharge. The amount of canceled debt that is excludable is calculated by finding the excess of liabilities (total debts owed) over the fair market value of any assets. However, the insolvency provision does not distinguish between assets that are essential (such as a primary residence or transportation) and other assets.

Resources:

[IRS Publication 970, Tax Benefits for Higher Education](#)

[Treasury letter to Rep. Levin, summarizing taxability issues](#)

[National Consumer Law Center, Tax Implications of Statutory Student Loan Cancellation Programs](#)