

Proposed Student Loan Forgiveness Summary

This is meant to be a quick summary of what is a very fast-moving piece of legislation. Very likely this will change before anything becomes law. We did want to send out a summary for those with student loans to offer some further detail in planning and decision making.

Summary:

This total program is more than just debt forgiveness. Below is information collected from the release earlier today by the White House. This covers some but not all of the fact sheet. For those wishing to see the White House fact sheet themselves, please visit the link [here](#).

- The forgiveness is being targeted at the \$10,000 level, however, through Pell Grants this can be increased to up to \$20,000.
- Income thresholds will apply through at the below levels
 - \$125,000 single
 - \$250,000 married
- Income will either be considered from 2020 or 2021 tax returns
- Pause of federal payments is extended through December 2022

Quotes from the White House Transcript:

“In addition to providing immediate cancellation, the administration is making the student loan system more manageable for current but also future borrowers.”

“First, the department will reform something called the income-driven repayment system. The Department of Education has authority to create income-driven repayment plans, which cap what borrowers pay each month based on a percentage of their discretionary or disposable income. Most of these plans cancel a borrower's remaining debt once they make 20 years of monthly payments.”

*“First is debt cancellation. The administration will provide \$20,000 in debt relief to borrowers who received Pell Grants while they were in college. **To qualify, a borrower must make less than \$125,000, or \$250,000 if they are part of a household.** Borrowers who are not Pell Grant recipients but who meet those income thresholds will be eligible to receive \$10,000 in relief.”*

For the purposes of the immediate debt relief, a borrower's income in either the 2020 or 2021 tax year is what's relevant. So, in other words, if in either 2021 or 2020 their income was below the income caps that have been described, they would be eligible for relief.

In terms of the process here, the Education Department is going to be releasing additional details in the coming days and weeks. Some borrowers are going to have to submit essentially a simple application that goes to their income and shows that they would meet the income caps that have been set out in this plan.

“This plan distributes relief highly progressively. Among borrowers who are no longer in school, nearly 90 percent of relief dollars will go to those earning less than \$75,000 a year, and no one in the top 5 percent of incomes in America will get a single dollar of relief. Current students with loans are eligible for this debt relief. Dependent students will be eligible for relief based on their

parental income rather than their own income. And to ensure a smooth transition to repayment and prevent unnecessary defaults, the administration will be extending the pause on federal student loan payments one final time through December 31, 2022.”

“The proposed rule for undergraduate loans would cut in half the amount that borrowers have to pay each month from 10 percent to 5 percent of discretionary income. They'll also raise the amount of income that is considered non-discretionary and therefore protected from repayment, guaranteeing that no borrower earning under 225 percent of the federal poverty level, which is about the annual equivalent of a \$15 minimum wage for a single borrower, will have to make a monthly payment. Further, for borrowers with loan balances of \$12,000 or less, the proposed rule will forgive loan balances after 10 years of payments instead of 20 years. And unlike existing income-driven repayment plans, this plan would cover the borrower's unpaid monthly interest so that borrowers' loan balance won't grow as long as they make their monthly payments.”

“The proposed rule also allows certain kinds of deferments and forbearances - such as those for Peace Corps and AmeriCorps service, National Guard duty, and military service - to count towards PSLF. And it proposes to change the program so that it works better for nontenured instructors whose colleges need to calculate their full-time employment.”

Specifics of the tax code to focus on

- The following is USC 26 Sec. 108(f)(5) and shows that the loan forgiveness is not cancellation of indebtedness income for the borrower.
 - 5) Special rule for discharges in 2021 through 2025
- Gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) after December 31, 2020, and before January 1, 2026, of
 - Any loan provided expressly for postsecondary educational expenses, regardless of whether provided through the educational institution or directly to the borrower, if such loan was made, insured, or guaranteed by
 - The United States, or an instrumentality or agency thereof
 - A State, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof, or
 - An eligible educational institution (as defined in section 25A)
 - Any private education loan (as defined in section 140(a)(7) 1 of the Truth in Lending Act)
 - Any loan made by any educational organization described in section 170(b)(1)(A)(ii) if such loan is made-
 - Pursuant to an agreement with any entity described in subparagraph (A) or any private education 2 lender (as defined in section 140(a) of the Truth in Lending Act) under which the funds from which the loan was made were provided to such educational organization, or
 - Pursuant to a program of such educational organization which is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs and under which the services provided by the students (or former students) are for or under the direction of a governmental unit or an organization described in section 501(c)(3) and exempt from tax under section 501(a), or

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