# Taxation of Student Loan Forgiveness

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## Discharged student loan debt is generally taxable

Loans that are forgiven are generally subject to federal and state income taxes, because discharged debt is included in the Internal Revenue Code's definition of gross income. However, federal law contains a number of exclusions for student debt discharged under certain federal and state programs.

Minnesota conforms to the federal law defining what amounts are included in gross income, meaning that discharged debt that is taxable federally is usually taxable in Minnesota. However, in 2017 Minnesota enacted a subtraction that excluded from taxation certain discharged student loans that are taxed federally.

## Some student loan forgiveness programs are exempted from federal and Minnesota income tax

Any loan forgiveness that is excluded from gross income federally is also exempt from Minnesota tax. Section 108(f) of the Internal Revenue Code excludes from taxation any student loans that were forgiven 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.

As a result, loan forgiveness through the following programs is not subject to federal or state tax:

- The National Health Service Corps Scholarship Program
- State loan forgiveness programs for health professionals, including the loan forgiveness and repayment programs administered by the Minnesota Department of Health
- The Public Service Loan Forgiveness (PSLF) program
- The John R. Justice loan repayment program for prosecutors and public defenders

## Loans forgiven in certain circumstances may also be exempt

Federal law (and Minnesota law by extension) excludes from gross income any student loans that were discharged in certain extenuating circumstances, including:

- Student debt discharged due to the death or disability of a borrower; or
- Student debt discharged due to the closure of the educational institution or false certification by the educational institution.

## Some loan forgiveness is taxable federally, but is exempt from Minnesota income tax

Loan forgiveness through the following 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. However, Minnesota allows an individual income tax subtraction for any discharged debt

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included in gross income federally. The Minnesota subtraction specifically exempts from tax any debt that was discharged through the following programs:

- Income-Contingent Repayment (ICR) and Income-Based Repayment (IBR) programs
- Pay-As-You-Earn (PAYE) and Revised Pay-As-You-Earn (REPAYE) programs
- The Minnesota Teacher Shortage Loan Forgiveness program

## Loan forgiveness provided through some Minnesota programs is likely taxable both federally and in Minnesota

The law establishing the Minnesota subtraction does not reference other state loan forgiveness programs. As a result, debt discharged through the following programs would likely be subject to state and federal tax:

- The Minnesota Agricultural Education Loan Forgiveness Program
- The Minnesota Aviation Degree Loan Forgiveness Program

Loan forgiveness through the Minnesota Large Animal Veterinarian Loan Forgiveness program may be taxable for the same reason as the programs for agricultural educators and aviation degree recipients, unless the program is covered by the federal exemption for state loan forgiveness programs for health professionals.

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