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Taxability of Student Loan Forgiveness

Some loan forgiveness

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programs are taxable and

some are not. Under current law, the amount forgiven generally represents taxable income for income tax purposes in the year it is written off. There are, however, a few exceptions. Generally, student loan forgiveness is excluded from income if the forgiveness is contingent upon the student working for a specific number of years in certain professions.

Public service loan forgiveness, teacher loan forgiveness, law school loan repayment assistance programs and the National Health Service Corps Loan Repayment Program are not taxable. Loan discharges for closed schools, false certification, unpaid refunds, and death and disability are considered taxable income. The forgiveness of the remaining balance under income-contingent repayment and income-based repayment after 25 years in repayment is considered taxable income.

Federal Income Tax Treatment

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Section 61(a)(12) of the Internal Revenue Code of 1986 (IRC) specifies that gross income includes income from the discharge of indebtedness of \$600 or more in any calendar year. However, IRC Section 108(f) specifies conditions under which student loan forgiveness is excluded from income. Specifically, IRC section 108(f)(1) states that

In the case of an individual, 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) of any student loan if such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged *if the individual worked for a certain period of time in certain professions for any of a broad class of employers.*

A "student loan" is defined in IRC section 108(f)(2) as including any loan provided to help an individual attend an educational institution. The loan must have been made by the United States or a US agency, a state government (including US territories and possessions and the District of Columbia) or any political subdivision of a state government, or a 501(c)(3) charitable organization that controls a public hospital.

Loans made by educational institutions also fall within the definition of a student loan, provided that either the funds came from one of the other three sources or the loan was made under a repayment assistance program of the educational institution that is designed to

encourage the institution's students to serve in occupations or areas with unmet needs. The service must be for or under the direction of a governmental unit or tax exempt 501(c)(3) charitable organization. The student must not be employed by or providing service to the educational institution that is discharging the student loan. Forgiveness of refinanced student loans are also eligible for tax free treatment under certain circumstances.

Related Resources

See [Chapter 5 of IRS Publication 970](#) for more information.

