BILL ANALYSIS

Department, Board, Or Commission	Authors	Bill Number
Franchise Tax Board	**Evans & Leno**	**SB 1271**

SUBJECT

Student Loan Debt Relief

SUMMARY

This bill would modify California tax law to exclude from gross income forgiven or repaid amounts of certain student loans.

REASON FOR THE BILL

The reason for the bill is to alleviate the burden that student loan debt places on Californians who are struggling to establish their careers, start families, and purchase homes in the years following graduation by ensuring that Californians whose student loan debt is forgiven or repaid by the federal government are not penalized through taxation of their forgiven or repaid loan debt.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2014.

FEDERAL/STATE LAW

Student Loan Forgiveness in General

Under federal and state law, gross income generally includes the discharge of indebtedness of the taxpayer. Under an exception to this general rule, gross income does not include any amount from the forgiveness (in whole or in part) of certain student loans, provided that the forgiveness is contingent on the student's working for a certain period of time in certain professions for any of a broad class of employers.

Student loans eligible for this special rule must be made to an individual to assist the individual in attending an educational institution that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where its education activities are regularly carried on. Loan proceeds may be used not only for tuition and required fees, but also to cover room and board expenses. The loan must be made by (1) the United States (or an instrumentality or agency thereof), (2) a state (or any political subdivision thereof), (3) certain tax-exempt public benefit corporations that control a state, county, or municipal hospital and whose employees have been deemed to be public employees under state law, or (4) an educational organization that originally received the funds from which the loan was made from the United States, a state, or a tax-exempt public benefit corporation.

In addition, an individual's gross income does not include amounts from the forgiveness of loans made by educational organizations (and certain tax-exempt organizations in the case of refinancing loans) out of private, nongovernmental funds if the proceeds of such loans are used to pay costs of attendance at an educational institution or to refinance any outstanding student loans (not just loans made by educational organizations) and the student is not employed by the lender organization. In the case of such loans made or refinanced by educational organizations (or refinancing loans made by certain tax-exempt organizations), cancellation of the student loan must be contingent upon the student working in an occupation or area with unmet needs and such work must be performed for, or under the direction of, a tax-exempt charitable organization or a governmental entity.

Finally, an individual's gross income does not include any loan repayment amount received under the National Health Service Corps loan repayment program or certain state loan repayment programs.

Federal Income-Based Repayment Programs

Students with higher education expenses may be eligible to borrow money for their education through the Direct Loan Program. Prior to July 1, 2010, they may also have been eligible to borrow money through the Family Education Loan Program. Both programs are administered by the U.S. Department of Education. Each program provides borrowers with an option for repaying the loan that is related to the borrower's income level after college (the income-contingent and the income-based repayment options). Under both of these options, borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the plan for 25 years.[1] For those who reach the 25-year point, any remaining loan balance is forgiven. Under current federal and state law, any loan balance forgiven by these programs is considered gross income to the borrower.

THIS BILL

This bill would exclude from gross income student loan debt that is forgiven or repaid under the income-based repayment programs administered by the U.S. Department of Education.

LEGISLATIVE HISTORY

SB 1003 (Evans, 2013/14), as amended June 30, 2014, was identical to this bill. SB 1003 was held in the Assembly Rules Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws. A review of the laws of these states found that *Illinois, Massachusetts, Michigan, Minnesota,* and *New York* generally conform to the federal rules relating to income exclusions for

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[1] The 25-year payment-period requirement is reduced to 20 years with respect to any loan made to a new borrower on or after July 1, 2014.

certain forgiven student loans, but none were found to provide an exclusion similar to the one proposed by this bill (i.e., for amounts forgiven at the end of the repayment period for federal student loans using the federal income-based repayment programs). *Florida* does not impose personal income tax, thus a comparison to *Florida* is not relevant.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate/Discussion

Under the federal income-based repayment programs, the first year that qualified student debt may be forgiven is 2019; thus, there would be no revenue impact prior to fiscal year 2018-19. Based on a proration of an estimate prepared by the Joint Committee on Taxation, it is estimated that the revenue loss from this bill would be approximately $5,000 in fiscal year 2018-19, gradually increasing to a loss of approximately $100,000 by fiscal year 2023-24.

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

APPOINTMENTS

None.

SUPPORT/OPPOSITION

Support: Unknown.

Opposition: Unknown.

VOTES

	Date	Yes	No
Concurrence	08/29/14	32	0
Assembly Floor	08/29/14	77	1
Senate Floor*	04/21/14	33	0

*This bill contained provisions relating to search warrants when it was passed by the Senate on April 21, 2014.

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