

September 26, 2008

The Honorable Charles Rangel
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Jim McCrery
Ranking Member, Committee on Ways and Means
1102 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Rangel and Congressman McCrery:

We write to urge your support for H.R. 7098, introduced by Reps. Levin, Miller and Ramstad. The bill would close a coverage gap in the tax treatment of forgiven student loans. The need for this amendment became clear only last week when the Treasury Department replied to a request for information from a bipartisan group of Ways and Means members.

Last year, the College Cost Reduction and Access Act (CCRAA) became Public Law 110-84. Among other important changes, the new law expanded on current student loan forgiveness programs in three ways:

- (1) Under Income Based Repayment (IBR), borrowers' payments on their federal loans are capped at a percentage of their disposable incomes. For some borrowers in high-debt and/or low-income situations, this cap results in their loan period being extended beyond the usual 10 years. The law says that if the borrower still has a balance remaining after not more than 25 years, that balance is canceled. IBR is available to all borrowers; a similar program called Income Contingent Repayment (ICR) has been available to borrowers in the Direct Loan Program since 1994.
- (2) With Public Service Loan Forgiveness (PSLF), borrowers who are in government and certain non-profit jobs and make eligible payments on their federal student loans can have their remaining balances forgiven after 10 years.
- (3) A new program called TEACH provides loans for future teachers. If the borrower meets the program's teaching requirements (including working as a teacher for at least four out of the eight years after they graduate), these loans will be treated as grants and do not have to be repaid.

The IRS generally considers forgiven debts to be income subject to income taxes. In the case of these student loan programs, however, doing so would defeat the purpose of the

loan forgiveness, because a debt would continue in the form of a tax liability. There are some exceptions to these IRS rules, and it was not clear whether they cover these new programs. Through a letter written last spring, a bipartisan group of Ways and Means Committee members sought clarification from the Education and Treasury Departments.

Last week, the Treasury Department responded to that request, indicating that category 2 and 3 above (PSLF and TEACH) are covered by the current IRS exceptions, so no congressional action is necessary to prevent the forgiven amounts from being taxed. However, the new IBR program and the ICR program would not be covered. H.R. 7098 would close that gap in coverage, so that the very borrowers that IBR and ICR were designed to help are not discouraged from participating.

We hope the Ways and Means Committee will move forward so the Congress can enact this important legislation as soon as possible.

Sincerely,

The Project on Student Debt, The Institute for College Access & Success
American Association of State Colleges and Universities
United States Student Association
The College Board
State Higher Education Executive Officers
National Association of Student Financial Aid Administrators
U.S. Public Interest Research Group
National Association for College Admission Counseling