

May 28, 2009

The Honorable Charles Rangel
Chairman, Committee on Ways and Means
2354 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Dave Camp
Ranking Member, Committee on Ways and Means
341 Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Rangel and Ranking Member Camp:

We write to express our support for H.R. 2492, introduced by Reps. Levin, Tiberi, Miller, Neal, Hinojosa, and Davis (IL). The bill would close a coverage gap in the tax treatment of forgiven student loans.

In October 2007, 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 of payments, 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 tax code generally considers forgiven debts to be income subject to tax. However, there are some exceptions to this general tax rule, and it was not clear whether they

applied to these new CCRAA programs. Through a letter written last spring, a bi-partisan group of Ways and Means Committee Members sought clarification from the Education and Treasury Departments.

Last fall, the Treasury Department responded to that request, indicating that items 2 and 3 above (PSLF and TEACH) are covered by the current law 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. 2492 would close that gap in coverage.

Most borrowers in IBR or ICR will pay off their loans long before the 25 year forgiveness period. However, the possibility of a significant tax liability may discourage participation by those who would benefit from these programs. Those borrowers who find themselves in long-term financial hardship, yet make on-time payments for the full 25 years in a good faith effort not to default, should not face a likely unaffordable tax bill for fulfilling their commitment. H.R. 2492 will remove this unfortunate consequence and help IBR work as Congress intended.

The IBR program will go into effect on July 1 of this year. We hope the Ways and Means Committee will act on this important legislation as soon as possible.

Sincerely,

American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
American Student Assistance
Association of American Universities
The College Board
Consumer Bankers Association
The Financial Services Roundtable
Equal Justice Works
Great Lakes Higher Education Corporation
National Association of Student Financial Aid Administrators
National Association for College Admission Counseling
Association of Public and Land-Grant Colleges (APLU)
The Project on Student Debt, an initiative of the Institute for College Access & Success
State Higher Education Executive Officers
U.S. Public Interest Research Group
United States Student Association