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S.F. No. 1323 – Modification of subtraction for discharge of indebtedness for student loans

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Date: March 3, 2021

The amount of discharged loan indebtedness, including discharged student loan indebtedness, is included in gross income unless specifically excluded, and is therefore taxable. Federal law excludes discharge of indebtedness of certain student loans if the loans were discharged upon completion of certain federal or state programs, such as the National Health Service Corps Scholarship Program, state loan forgiveness programs for health professionals, and the Public Service Loan Forgiveness Program.

Minnesota currently excludes discharged loans under four federal programs and one state program from the calculation of Minnesota taxable income, even though they are taxable at the federal level:

- Income-contingent repayment and Income-based repayment (ICR and IBR) programs;
- Pay-as-you-earn and Revised-pay-as-you-earn (PAYE and REPAYE) programs; and
- Minnesota Teacher Shortage Loan Forgiveness program.

This bill strikes language listing the specific programs under which discharge of loan indebtedness is excluded for purposes of calculating Minnesota taxable income, and would allow the discharge of indebtedness under any federal loan forgiveness program to be excluded.

Effective beginning in tax year 2021.