
6.

Student Loan Cancellations and Repayment Assistance

Introduction

If you fulfill certain requirements, two types of student loan assistance may be tax free. The types of assistance discussed in this chapter are:

- Student loan cancellation, and
- Student loan repayment assistance.

Student Loan Cancellation

Generally, if you are responsible for making loan payments, and the loan is canceled (forgiven), you must include the amount that was forgiven in your gross income for tax purposes. However, if your student loan is canceled, you may not have to include any amount in income. This section describes the requirements for tax-free treatment of canceled student loans.

Qualifying Loans

To qualify for tax-free treatment, your loan must contain a provision that all or part of the debt will be canceled if you work:

- For a certain period of time,
- In certain professions, and
- For any of a broad class of employers.

The loan must have been made by a qualified lender to assist the borrower in attending an eligible educational institution.

Qualified lenders. These include the following.

1. The government—federal, state, or local, or an instrumentality, agency, or subdivision thereof.
2. A tax-exempt public benefit corporation that has assumed control of a state, county, or municipal hospital and whose employees are considered public employees under state law.
3. An eligible educational institution, if the loan is made:
 - a. As part of an agreement with an entity described in (1) or (2) under which the funds to make the loan were provided to the educational institution, or
 - b. Under a program of the educational institution that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where the services required of the students are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.



In satisfying the service requirement in item 3b, the student must not provide services for the lender organization.

Section 501(c)(3) organization. This is any corporation, community chest, fund, or foundation organized and operated exclusively for one or more of the following purposes.

- Charitable.
- Religious.
- Educational.
- Scientific.
- Literary.
- Testing for public safety.
- Fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment).
- The prevention of cruelty to children or animals.

Eligible educational institution. This is an educational institution that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Refinanced Loan

If you refinanced a student loan with another loan from an eligible educational institution or a tax-exempt organization, that loan may also be considered as made by a qualified lender. It is considered made by a qualified lender if it meets the requirements of item 3b under [Qualified lenders](#) earlier on this page.

Student Loan Repayment Assistance

Loan repayment assistance programs (LRAP) provide help in repaying student loans for those who work in public service occupations or in areas with unmet needs. Examples of such occupations are health care professionals in underserved areas, attorneys in legal-aid offices and prosecutor's or public defender's offices, and classroom teachers in subject areas with shortages.

An LRAP loan refinances your original student loan(s). After you work for a certain minimum period of time in a qualifying position, all or part of your student loan indebtedness is forgiven.

The amount of your loan that is forgiven is tax-free if the LRAP meets certain criteria. Repayment assistance received under the following programs has been determined to be tax free.

- National Health Service Corps (NHSC) Loan Repayment Program.
- State programs eligible for funds under the Public Health Service Act.
- Law school LRAP.

If your repayment assistance is from a source other than those listed, contact the program administrator to see if the

LRAP qualifies for tax-free assistance. The program must meet the qualifications listed earlier in this chapter under [Qualifying Loans](#).



You cannot deduct the interest you paid on a student loan to the extent payments were made through your participation in the above programs.