

August 24, 2022

President Joe Biden announced a three-part plan to address student loans. Here is a brief summary of this plan and our analysis.

1) Extension of student loan repayment to December 31, 2022

The Biden-Harris administration made the decision to extend student loan repayment until December 31, 2022. Although the payment pause has been extended multiple times, the administration has stated that is the final extension. Payments will resume in January 2023.

2) Forgiveness of up to \$20,000 of student loans

Borrowers are eligible for the \$10,000 in loan forgiveness if their individual income is less than \$125,000 (\$250,000 for married/head of household). Pell Grant recipients qualify for an additional \$10,000 in forgiveness. Debt relief is capped at the amount of outstanding debt. The Department of Education will provide a simple application in early October to apply for forgiveness. With payments resuming in January, borrowers are encouraged to fill out this application by November 15, 2022. This will ensure that the debt forgiveness is applied to account before payments are due.

If you or someone you know works full-time for the government (federal, state, Tribal, or local government; military, etc.), the government already has a Public Service Loan Forgiveness (PSLF) program. This program forgives the remaining balance on your federal student loans after 120 payments. There have been recent changes that allow borrowers to count the payment pause period towards this 120-payment total. This temporary relief ends **October 31, 2022**, so be sure to review eligibility soon.

3) Updates to income-based repayment plans

The plan calls for borrowers utilizing the income-driven repayment plans to pay no more than 5% of their discretionary monthly income. This would be a decrease from the 10% currently used under this payment plan. The plan also calls for forgiveness after 10 years of payments for borrowers with a balance of \$12,000 or less.

It is important to note that there are still many questions surrounding this plan. Ultimately, the announcement will likely end up in the courts as the legal authority for this forgiveness is contested.

At this point, the forgiveness will be federally tax free. A few states still have laws which would create a tax liability for student debt forgiveness. Those states are Arkansas, Massachusetts, Minnesota, Mississippi, North Carolina, and Wisconsin. There is still time for states to issue additional guidance on the treatment of student loan forgiveness and we will be sure to monitor for any updates.

Please do not hesitate to reach out to us with any questions.