
OLR Bill Analysis

HB 6928

AN ACT CONCERNING THE PERSONAL INCOME TAX TREATMENT OF CERTAIN STUDENT LOAN FORGIVENESS AMOUNTS.

SUMMARY

This bill authorizes a personal income tax exemption for up to \$10,000 of federally taxable student loan forgiveness.

State tax treatment of a forgiven student loan depends on its federal tax treatment (see BACKGROUND). By law, the starting point for calculating Connecticut taxable income is federal adjusted gross income (AGI). Any income excluded from federal AGI is exempt for state tax purposes, unless state law requires that it be added back; likewise, any income included in federal AGI is taxable unless state law allows a subtraction for it.

Under current law, only federally exempt student loan forgiveness is exempt from state income tax, because the state does not provide any additional subtractions for forgiven student loans. Under the bill, all federally exempt loan forgiveness, plus up to \$10,000 of federally taxable forgiveness, is exempt from state income tax.

EFFECTIVE DATE: January 1, 2024, and applicable to tax years beginning on and after that date.

BACKGROUND

Income Tax Treatment of Student Loan Forgiveness

Generally, canceled debt is considered taxable income for federal tax purposes (26 U.S.C. § 61(a)), but student loan forgiveness is not always treated as canceled debt. Under the American Rescue Plan Act (ARPA), any student loan amounts forgiven in the 2021-2025 tax years are not subject to federal income taxes (P.L. 117-2, § 9675). Starting in 2026, as

was the case prior to ARPA's passage, only certain types of forgiveness are federally tax exempt, such as loans discharged under loan forgiveness programs for individuals who work in certain professions for a designated time period (e.g., Public Service Loan Forgiveness (26 U.S.C. § 108(f))). Other loan forgiveness, such as forgiveness under income-driven repayment programs (usually after 20 or 25 years of payments) will again be federally taxable, unless the exemption is extended.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 51 Nay 0 (04/18/2023)