



House of Representatives

General Assembly

File No. 684

January Session, 2023

House Bill No. 6928

House of Representatives, May 2, 2023

The Committee on Finance, Revenue and Bonding reported through REP. HORN of the 64th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

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

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of
2 section 12-701 of the general statutes is repealed and the following is
3 substituted in lieu thereof (*Effective January 1, 2024, and applicable to*
4 *taxable years commencing on or after January 1, 2024*):

5 (B) There shall be subtracted therefrom:

6 (i) To the extent properly includable in gross income for federal
7 income tax purposes, any income with respect to which taxation by any
8 state is prohibited by federal law;

9 (ii) To the extent allowable under section 12-718, exempt dividends
10 paid by a regulated investment company;

11 (iii) To the extent properly includable in gross income for federal
12 income tax purposes, the amount of any refund or credit for

13 overpayment of income taxes imposed by this state, or any other state
14 of the United States or a political subdivision thereof, or the District of
15 Columbia;

16 (iv) To the extent properly includable in gross income for federal
17 income tax purposes and not otherwise subtracted from federal
18 adjusted gross income pursuant to clause (x) of this subparagraph in
19 computing Connecticut adjusted gross income, any tier 1 railroad
20 retirement benefits;

21 (v) To the extent any additional allowance for depreciation under
22 Section 168(k) of the Internal Revenue Code for property placed in
23 service after September 27, 2017, was added to federal adjusted gross
24 income pursuant to subparagraph (A)(ix) of this subdivision in
25 computing Connecticut adjusted gross income, twenty-five per cent of
26 such additional allowance for depreciation in each of the four
27 succeeding taxable years;

28 (vi) To the extent properly includable in gross income for federal
29 income tax purposes, any interest income from obligations issued by or
30 on behalf of the state of Connecticut, any political subdivision thereof,
31 or public instrumentality, state or local authority, district or similar
32 public entity created under the laws of the state of Connecticut;

33 (vii) To the extent properly includable in determining the net gain or
34 loss from the sale or other disposition of capital assets for federal income
35 tax purposes, any gain from the sale or exchange of obligations issued
36 by or on behalf of the state of Connecticut, any political subdivision
37 thereof, or public instrumentality, state or local authority, district or
38 similar public entity created under the laws of the state of Connecticut,
39 in the income year such gain was recognized;

40 (viii) Any interest on indebtedness incurred or continued to purchase
41 or carry obligations or securities the interest on which is subject to tax
42 under this chapter but exempt from federal income tax, to the extent that
43 such interest on indebtedness is not deductible in determining federal
44 adjusted gross income and is attributable to a trade or business carried

45 on by such individual;

46 (ix) Ordinary and necessary expenses paid or incurred during the
47 taxable year for the production or collection of income which is subject
48 to taxation under this chapter but exempt from federal income tax, or
49 the management, conservation or maintenance of property held for the
50 production of such income, and the amortizable bond premium for the
51 taxable year on any bond the interest on which is subject to tax under
52 this chapter but exempt from federal income tax, to the extent that such
53 expenses and premiums are not deductible in determining federal
54 adjusted gross income and are attributable to a trade or business carried
55 on by such individual;

56 (x) (I) For taxable years commencing prior to January 1, 2019, for a
57 person who files a return under the federal income tax as an unmarried
58 individual whose federal adjusted gross income for such taxable year is
59 less than fifty thousand dollars, or as a married individual filing
60 separately whose federal adjusted gross income for such taxable year is
61 less than fifty thousand dollars, or for a husband and wife who file a
62 return under the federal income tax as married individuals filing jointly
63 whose federal adjusted gross income for such taxable year is less than
64 sixty thousand dollars or a person who files a return under the federal
65 income tax as a head of household whose federal adjusted gross income
66 for such taxable year is less than sixty thousand dollars, an amount
67 equal to the Social Security benefits includable for federal income tax
68 purposes;

69 (II) For taxable years commencing prior to January 1, 2019, for a
70 person who files a return under the federal income tax as an unmarried
71 individual whose federal adjusted gross income for such taxable year is
72 fifty thousand dollars or more, or as a married individual filing
73 separately whose federal adjusted gross income for such taxable year is
74 fifty thousand dollars or more, or for a husband and wife who file a
75 return under the federal income tax as married individuals filing jointly
76 whose federal adjusted gross income from such taxable year is sixty
77 thousand dollars or more or for a person who files a return under the

78 federal income tax as a head of household whose federal adjusted gross
79 income for such taxable year is sixty thousand dollars or more, an
80 amount equal to the difference between the amount of Social Security
81 benefits includable for federal income tax purposes and the lesser of
82 twenty-five per cent of the Social Security benefits received during the
83 taxable year, or twenty-five per cent of the excess described in Section
84 86(b)(1) of the Internal Revenue Code;

85 (III) For the taxable year commencing January 1, 2019, and each
86 taxable year thereafter, for a person who files a return under the federal
87 income tax as an unmarried individual whose federal adjusted gross
88 income for such taxable year is less than seventy-five thousand dollars,
89 or as a married individual filing separately whose federal adjusted gross
90 income for such taxable year is less than seventy-five thousand dollars,
91 or for a husband and wife who file a return under the federal income tax
92 as married individuals filing jointly whose federal adjusted gross
93 income for such taxable year is less than one hundred thousand dollars
94 or a person who files a return under the federal income tax as a head of
95 household whose federal adjusted gross income for such taxable year is
96 less than one hundred thousand dollars, an amount equal to the Social
97 Security benefits includable for federal income tax purposes; and

98 (IV) For the taxable year commencing January 1, 2019, and each
99 taxable year thereafter, for a person who files a return under the federal
100 income tax as an unmarried individual whose federal adjusted gross
101 income for such taxable year is seventy-five thousand dollars or more,
102 or as a married individual filing separately whose federal adjusted gross
103 income for such taxable year is seventy-five thousand dollars or more,
104 or for a husband and wife who file a return under the federal income tax
105 as married individuals filing jointly whose federal adjusted gross
106 income from such taxable year is one hundred thousand dollars or more
107 or for a person who files a return under the federal income tax as a head
108 of household whose federal adjusted gross income for such taxable year
109 is one hundred thousand dollars or more, an amount equal to the
110 difference between the amount of Social Security benefits includable for
111 federal income tax purposes and the lesser of twenty-five per cent of the

112 Social Security benefits received during the taxable year, or twenty-five
113 per cent of the excess described in Section 86(b)(1) of the Internal
114 Revenue Code;

115 (xi) To the extent properly includable in gross income for federal
116 income tax purposes, any amount rebated to a taxpayer pursuant to
117 section 12-746;

118 (xii) To the extent properly includable in the gross income for federal
119 income tax purposes of a designated beneficiary, any distribution to
120 such beneficiary from any qualified state tuition program, as defined in
121 Section 529(b) of the Internal Revenue Code, established and
122 maintained by this state or any official, agency or instrumentality of the
123 state;

124 (xiii) To the extent allowable under section 12-701a, contributions to
125 accounts established pursuant to any qualified state tuition program, as
126 defined in Section 529(b) of the Internal Revenue Code, established and
127 maintained by this state or any official, agency or instrumentality of the
128 state;

129 (xiv) To the extent properly includable in gross income for federal
130 income tax purposes, the amount of any Holocaust victims' settlement
131 payment received in the taxable year by a Holocaust victim;

132 (xv) To the extent properly includable in gross income for federal
133 income tax purposes of an account holder, as defined in section 31-
134 51ww, interest earned on funds deposited in the individual
135 development account, as defined in section 31-51ww, of such account
136 holder;

137 (xvi) To the extent properly includable in the gross income for federal
138 income tax purposes of a designated beneficiary, as defined in section
139 3-123aa, interest, dividends or capital gains earned on contributions to
140 accounts established for the designated beneficiary pursuant to the
141 Connecticut Homecare Option Program for the Elderly established by
142 sections 3-123aa to 3-123ff, inclusive;

143 (xvii) To the extent properly includable in gross income for federal
144 income tax purposes, any income received from the United States
145 government as retirement pay for a retired member of (I) the Armed
146 Forces of the United States, as defined in Section 101 of Title 10 of the
147 United States Code, or (II) the National Guard, as defined in Section 101
148 of Title 10 of the United States Code;

149 (xviii) To the extent properly includable in gross income for federal
150 income tax purposes for the taxable year, any income from the discharge
151 of indebtedness in connection with any reacquisition, after December
152 31, 2008, and before January 1, 2011, of an applicable debt instrument or
153 instruments, as those terms are defined in Section 108 of the Internal
154 Revenue Code, as amended by Section 1231 of the American Recovery
155 and Reinvestment Act of 2009, to the extent any such income was added
156 to federal adjusted gross income pursuant to subparagraph (A)(xi) of
157 this subdivision in computing Connecticut adjusted gross income for a
158 preceding taxable year;

159 (xix) To the extent not deductible in determining federal adjusted
160 gross income, the amount of any contribution to a manufacturing
161 reinvestment account established pursuant to section 32-9zz in the
162 taxable year that such contribution is made;

163 (xx) To the extent properly includable in gross income for federal
164 income tax purposes, (I) for the taxable year commencing January 1,
165 2015, ten per cent of the income received from the state teachers'
166 retirement system, (II) for the taxable years commencing January 1,
167 2016, to January 1, 2020, inclusive, twenty-five per cent of the income
168 received from the state teachers' retirement system, and (III) for the
169 taxable year commencing January 1, 2021, and each taxable year
170 thereafter, fifty per cent of the income received from the state teachers'
171 retirement system or, for a taxpayer whose federal adjusted gross
172 income does not exceed the applicable threshold under clause (xxi) of
173 this subparagraph, the percentage pursuant to said clause of the income
174 received from the state teachers' retirement system, whichever
175 deduction is greater;

176 (xxi) To the extent properly includable in gross income for federal
177 income tax purposes, except for retirement benefits under clause (iv) of
178 this subparagraph and retirement pay under clause (xvii) of this
179 subparagraph, for a person who files a return under the federal income
180 tax as an unmarried individual whose federal adjusted gross income for
181 such taxable year is less than seventy-five thousand dollars, or as a
182 married individual filing separately whose federal adjusted gross
183 income for such taxable year is less than seventy-five thousand dollars,
184 or as a head of household whose federal adjusted gross income for such
185 taxable year is less than seventy-five thousand dollars, or for a husband
186 and wife who file a return under the federal income tax as married
187 individuals filing jointly whose federal adjusted gross income for such
188 taxable year is less than one hundred thousand dollars, (I) for the taxable
189 year commencing January 1, 2019, fourteen per cent of any pension or
190 annuity income, (II) for the taxable year commencing January 1, 2020,
191 twenty-eight per cent of any pension or annuity income, (III) for the
192 taxable year commencing January 1, 2021, forty-two per cent of any
193 pension or annuity income, and (IV) for the taxable year commencing
194 January 1, 2022, and each taxable year thereafter, one hundred per cent
195 of any pension or annuity income;

196 (xxii) The amount of lost wages and medical, travel and housing
197 expenses, not to exceed ten thousand dollars in the aggregate, incurred
198 by a taxpayer during the taxable year in connection with the donation
199 to another person of an organ for organ transplantation occurring on or
200 after January 1, 2017;

201 (xxiii) To the extent properly includable in gross income for federal
202 income tax purposes, the amount of any financial assistance received
203 from the Crumbling Foundations Assistance Fund or paid to or on
204 behalf of the owner of a residential building pursuant to sections 8-442
205 and 8-443;

206 (xxiv) To the extent properly includable in gross income for federal
207 income tax purposes, the amount calculated pursuant to subsection (b)
208 of section 12-704g for income received by a general partner of a venture

209 capital fund, as defined in 17 CFR 275.203(l)-1, as amended from time to
210 time;

211 (xxv) To the extent any portion of a deduction under Section 179 of
212 the Internal Revenue Code was added to federal adjusted gross income
213 pursuant to subparagraph (A)(xiv) of this subdivision in computing
214 Connecticut adjusted gross income, twenty-five per cent of such
215 disallowed portion of the deduction in each of the four succeeding
216 taxable years;

217 (xxvi) To the extent properly includable in gross income for federal
218 income tax purposes, for a person who files a return under the federal
219 income tax as an unmarried individual whose federal adjusted gross
220 income for such taxable year is less than seventy-five thousand dollars,
221 or as a married individual filing separately whose federal adjusted gross
222 income for such taxable year is less than seventy-five thousand dollars,
223 or as a head of household whose federal adjusted gross income for such
224 taxable year is less than seventy-five thousand dollars, or for a husband
225 and wife who file a return under the federal income tax as married
226 individuals filing jointly whose federal adjusted gross income for such
227 taxable year is less than one hundred thousand dollars, (I) for the taxable
228 year commencing January 1, 2023, twenty-five per cent of any
229 distribution from an individual retirement account other than a Roth
230 individual retirement account, (II) for the taxable year commencing
231 January 1, 2024, fifty per cent of any distribution from an individual
232 retirement account other than a Roth individual retirement account, (III)
233 for the taxable year commencing January 1, 2025, seventy-five per cent
234 of any distribution from an individual retirement account other than a
235 Roth individual retirement account, and (IV) for the taxable year
236 commencing January 1, 2026, and each taxable year thereafter, any
237 distribution from an individual retirement account other than a Roth
238 individual retirement account; [and]

239 (xxvii) To the extent properly includable in gross income for federal
240 income tax purposes, for the taxable year commencing January 1, 2022,
241 the amount or amounts paid or otherwise credited to any eligible

242 resident of this state under (I) the 2020 Earned Income Tax Credit
 243 enhancement program from funding allocated to the state through the
 244 Coronavirus Relief Fund established under the Coronavirus Aid, Relief,
 245 and Economic Security Act, P.L. 116-136, and (II) the 2021 Earned
 246 Income Tax Credit enhancement program from funding allocated to the
 247 state pursuant to Section 9901 of Subtitle M of Title IX of the American
 248 Rescue Plan Act of 2021, P.L. 117-2; and

249 (xxviii) To the extent properly includable in gross income for federal
 250 income tax purposes, the amount of any student loan forgiveness
 251 received by a taxpayer, not to exceed ten thousand dollars in the
 252 aggregate.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>January 1, 2024, and applicable to taxable years commencing on or after January 1, 2024</i>	12-701(a)(20)(B)

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 24 \$	FY 25 \$
Revenue Serv., Dept.	GF - Cost	Up to \$75,000	None
Revenue Serv., Dept.	GF - Revenue Loss	None	None

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a personal income tax exemption for up to \$10,000 of federally taxable student loan forgiveness, results in a one-time cost of up to \$75,000 in FY 24 for programming updates to the CTax tax administration system and myconneCT online portal, and for form development.

The Out Years

There is no revenue impact through FY 26 as the American Rescue Plan Act of 2021 exempted student loan forgiveness from taxation at the federal level until the end of 2025. The total General Fund revenue loss in FY 27 and beyond is dependent upon (1) the continued federal treatment of student loan debt forgiveness and (2) the overall amount of federally taxable forgiveness for Connecticut residents annually.

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)