

# DEPARTMENT OF TAXATION

## 2020 Fiscal Impact Statement

1. **Patron** John J. Bell

3. **Committee** House Finance

4. **Title** Individual Income Tax; Exclusion for the  
Discharge of Certain Student Loans for  
Disabled Military Veterans

2. **Bill Number** SB 745

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide an individual income tax exclusion for any amount includable in the federal adjusted gross income ("FAGI") of veterans who have been rated with a 100 percent service-connected, permanent, and total disability by the U.S. Department of Veterans Affairs, by reason of the whole or partial discharge of certain student loans.

This bill would be effective for taxable years beginning on and after January 1, 2020, but before January 1, 2026.

**This is a Secretary of Veterans and Defense Affairs bill.**

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

#### Revenue Impact

This bill would have no impact on General Fund revenues. The discharge of indebtedness income that would be made exempt under this bill is not currently taxable for federal income tax purposes. Because Virginia conformed to this provision when it advanced its date of conformity during the 2019 Session and generally conformed to the Tax Cuts and Jobs Act ("TCJA"), this income is exempt for Virginia income tax purposes. Both the exclusion under this bill and the federal exclusion are currently scheduled to expire beginning on January 1, 2026.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

Federal Law

For federal income tax purposes, taxpayers are generally subject to taxation on the discharge of indebtedness. The amount of the discharge is treated as income for federal tax purposes. This treatment also applies to student loan forgiveness, unless an exception applies.

On December 22, 2017, Congress enacted the TCJA. The TCJA included a provision that generally excludes student loan forgiveness on account of death or total and permanent disability from taxation for Taxable Year 2018 through Taxable Year 2025. This applies to many public loans as well as private education loans. Therefore, student loan forgiveness for totally and permanently disabled veterans is not generally taxable for federal income tax purposes.

On August 21, 2019, a presidential memorandum was issued that required the automatic forgiveness of certain student loans owned by totally and permanently disabled veterans. Prior to the signing of the memorandum, totally and permanently disabled veterans were eligible for student loan forgiveness, but they were required to apply for it. Totally and permanently disabled veterans may opt out of this automatic loan forgiveness. This did not impact the tax-exempt status of such discharges of indebtedness.

Virginia Law

During the 2019 Session, the General Assembly advanced Virginia's date of conformity to the Internal Revenue Code from February 9, 2018 to December 31, 2018. This conformed Virginia to most of the provisions of the TCJA, including the exclusion for student loan forgiveness on account of death or total and permanent disability. Therefore, such discharge of indebtedness is currently exempt for Virginia income tax purposes.

Proposed Legislation

This bill would provide an individual income tax exclusion for any amount includable in the FAGI of veterans, who have been rated with a 100 percent service-connected, permanent, and total disability by the U.S. Department of Veterans Affairs, by reason of the whole or partial discharge of certain student loans.

This bill would define "eligible veteran" as a veteran who has been rated by the U.S. Department of Veterans Affairs, or its successor agency pursuant to federal law, to have a 100 percent service-connected, permanent, and total disability.

This bill would be effective for taxable years beginning on and after January 1, 2020, but before January 1, 2026.

### Similar Bills

**House Bill 1619** would provide an individual income tax subtraction for the amount of the annual retirement compensation received for service as a member of the United States Armed Forces or the Virginia National Guard by a veteran who has a 100 percent service-connected permanent and total disability.

cc : Secretary of Finance

Date: 2/14/2020 RWC  
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