

# **.DEPARTMENT OF TAXATION**

## **2024 Fiscal Impact Statement**

1. **Patron** Thomas A. Garrett

3. **Committee** House Finance

4. **Title** Income Tax Exclusion; Veteran Student  
Loan Forgiveness

2. **Bill Number** HB 483

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would remove the sunset date for the exemption from income applicable to the discharge of student loan debt for certain disabled veterans. This bill would also restrict the types of loans that are eligible for the exemption to only federal student loan indebtedness. Under current law, this exemption applies to all student loans described under federal law, which includes both private loans and loans guaranteed by federal, state, and local governments and educational institutions.

If enacted during the regular session of the 2024 General Assembly, this bill would become effective July 1, 2024.

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

7. **No Fiscal Impact:** (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

The portion of this bill extending the sunset date would have no impact on General Fund revenues. Because the official revenue forecast assumes the extension of expiring tax provisions, extending the sunset date of this individual income tax exemption would have no revenue impact.

The portion of this restricting the types of loans that qualify for the tax exemption would also have no impact on General Fund revenues. Loans ineligible for the tax exemption under this bill will remain eligible for the tax exemption provided by the federal Tax Cuts and Jobs Act and the federal American Rescue Plan, to which Virginia conforms.

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

Department of Taxation

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

**11. Other comments:**

Federal Tax Cuts and Jobs Act

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.

The TCJA included a provision that generally exempts 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.

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 exempt for Virginia income tax purposes.

2020 Virginia Law Change

During the 2020 Session, the General Assembly enacted Chapter 606, *2020 Acts of Assembly*. Such law provided an individual income tax exclusion for any amount includable in the federal adjusted gross income 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 after December 31, 2017. Due to Virginia's conformity to the federal exclusion under the TCJA, this Virginia exclusion is not currently effectual. However, if Congress were ever to narrow the scope of or repeal the federal exemption for certain student loan forgiveness, this law provides that such student loan forgiveness received by eligible veterans remains exempt for Virginia individual income tax purposes.

Federal American Rescue Plan

The American Rescue Plan Act of 2021 ("ARPA") included a provision that removed the requirement that the student loan forgiveness be on account of death or total and permanent disability for Taxable Year 2021 through Taxable Year 2025. As a result, student loan forgiveness is not generally taxable for federal income tax purposes. During the 2022 Session, the General Assembly advanced Virginia's date of conformity to the Internal Revenue Code from December 31, 2020 to December 31, 2021. This conformed Virginia to the provisions of ARPA, including the exclusion for student loan forgiveness for any reason. Therefore, such discharge of indebtedness is exempt for Virginia income tax purposes.

## Proposed Legislation

This bill would remove the sunset date for the exemption from income applicable to the discharge of student loan debt for certain disabled veterans. This bill would also restrict the types of loans that are eligible for the exemption to only federal student loan indebtedness. Under current law, this exemption applies to all student loans described under federal law, which includes both private loans and loans guaranteed by federal, state, and local governments and educational institutions.

If enacted during the regular session of the 2024 General Assembly, this bill would become effective July 1, 2024.

cc : Secretary of Finance

Date: 1/20/2024 SJH  
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