

Senate Study Bill 1142 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON FEENSTRA)

A BILL FOR

1 An Act exempting from the individual income tax the amount of
2 income resulting from the discharge of certain student loan
3 debt on account of death or total and permanent disability
4 and including retroactive applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, Code 2017, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 18. *a.* Subtract, to the extent included,
4 the amount of income resulting from a discharge of qualified
5 student loan debt under either of the following circumstances:

6 (1) The discharge occurs pursuant to the provisions of 20
7 U.S.C. ch. 28, subch. IV, on account of the death or total and
8 permanent disability of the student or borrower.

9 (2) The discharge occurs on account of the death or total
10 and permanent disability of the student or borrower. For
11 purposes of this subparagraph, "*total and permanent disability*"
12 has the same meaning as "*totally and permanently disabled*" in 34
13 C.F.R. §685.102(b), and shall be proven by the taxpayer using
14 the documentation described in 34 C.F.R. §685.213(b)(2), or 34
15 C.F.R. §685.213(c)(1), as applicable, and pursuant to rules
16 prescribed by the director.

17 *b.* For purposes of this subsection, "*qualified student loan*"
18 means a student loan as defined in section 108(f)(2) of the
19 Internal Revenue Code or a private education loan as defined in
20 15 U.S.C. §1650(a)(7).

21 Sec. 2. RETROACTIVE APPLICABILITY. This Act applies
22 retroactively to January 1, 2017, for tax years beginning on
23 or after that date.

24 EXPLANATION

25 The inclusion of this explanation does not constitute agreement with
26 the explanation's substance by the members of the general assembly.

27 Under current law for federal income tax purposes and Iowa
28 income tax purposes, a discharge (cancellation) of student
29 loan debt on account of death or permanent disability results
30 in taxable income to the debtor for the amount of the debt
31 discharged. This bill exempts, for Iowa individual income
32 tax purposes, income resulting from a discharge of qualified
33 student loan debt on account of the death or total and
34 permanent disability of the student or borrower.

35 "Qualified student loan" is defined in the bill, but

1 generally includes postsecondary education student loans made
2 by the United States or a federal agency or instrumentality, a
3 state or political subdivision of a state, a tax-exempt public
4 benefit corporation controlling a hospital, certain educational
5 organizations, or private educational lenders.

6 The exemption applies to qualified student loans discharged
7 on account of the death or total and permanent disability of
8 the student or borrower pursuant to provisions of title IV
9 of the federal Higher Education Act of 1965 (federal student
10 financial aid programs).

11 Alternatively, the exemption applies to qualified student
12 loans otherwise discharged on account of the death or total and
13 permanent disability of the student or borrower. For purposes
14 of the bill, "total and permanent disability" is defined to
15 mean the same as it does for purposes of the federal student
16 financial aid programs, which generally include individuals who
17 are unable to engage in substantial gainful activity by reason
18 of a physical or mental impairment that can be expected to
19 result in death and that has lasted or will last for at least 60
20 months, or individuals who are determined by the secretary of
21 veterans affairs to be unemployable due to a service-connected
22 disability. For this alternative, the bill requires total and
23 permanent disability to be proven using the same documentation
24 required for purposes of the federal student financial
25 aid programs, which require a physician certification, a
26 social security administration disability determination, or
27 documentation from the department of veterans affairs.

28 The bill applies retroactively to January 1, 2017, for tax
29 years beginning on or after that date.