

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Thomas A. Garrett

3. **Committee** House Finance

4. **Title** Individual Income Tax: Veteran Student Loan
Forgiveness

2. **Bill Number** HB 2062

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 2025 General Assembly, this bill would become effective July 1, 2025.

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

To the extent that this bill extends the sunset date and conforms Virginia law to the federal exemption for the discharge of any federal student loan, this bill would have no impact on General Fund revenues. Because the Official General Fund revenue forecast assumes the extension of expiring tax provisions—including federal expiring tax provisions, extending the sunset date of this individual income tax exemption would have no revenue impact.

In addition, the provision of the bill that restricts this exemption to federal student loans only would not result in a revenue gain because under federal law to which Virginia

conforms, the forgiveness of all student loans—including private loans and federal loans—are already generally exempt.

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.

On August 21, 2019, a presidential memorandum was issued that required the automatic forgiveness of certain student loans owed 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.

Most provisions of the federal individual income tax in the 2017 law, the TCJA, are scheduled to expire in 2025.

2019 Virginia Law Change

During the 2019 Session, the General Assembly enacted Virginia’s 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.

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.

Proposal

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 2025 General Assembly, this bill would become effective July 1, 2025.

cc : Secretary of Finance

Date: 01/20/2025 ALS
HB2062F161