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California Gov. Presses State Lawmakers Not to Tax Forgiven Student Loans

Gavin Newsom's preliminary budget he submits in January will include a proposal to exempt the forgiven debt.

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By Jon Healey, Los Angeles Times (TNS)

Gov. Gavin Newsom on Saturday called on the California Legislature to act quickly to prevent student loan borrowers from having to pay state income taxes on up to \$20,000 in federal debt forgiveness.

The Biden administration announced in August a sweeping, one-time loan forgiveness program that would wipe out thousands of dollars in federal direct loan debt. Borrowers who meet the program's income limits—less than \$125,000 for an individual or \$250,000 for a couple—will have up to \$10,000 in debt forgiven, or up to \$20,000 if they received a federal Pell Grant.

Tax authorities treat forgiven debt in many cases as income. Under federal law, the amounts forgiven through the Biden initiative will be ignored by the Internal Revenue Service. But [under current state law](#), analysts say, they will be treated as taxable income in California.

Newsom said the preliminary budget he submits in January will include a proposal to exempt the forgiven debt from state taxes. The change would save more than 3.5 million borrowers in the state—including more than 2.3 million Pell Grant recipients—up to \$1.3 billion, he said.

“Californians who get student debt relief shouldn’t be hit with taxes for it,” Newsom said in a statement. “I look forward to working closely with the Legislature to get this done through early action.”

Newsom's position aligns him with the Legislature's top Democrats. The leaders of the state Assembly and Senate [tweeted](#) in September that they would make sure the forgiven amounts aren't taxable.

The U.S. Education Department started accepting [applications for loan forgiveness](#) last month, and it was expected to start forgiving debt by the end of the year. But legal tussles have cast a cloud over its future.

The program is being challenged in several courts across the country by Republican officials and conservative groups. Although judges have blocked at least two of the cases because the plaintiffs lacked standing to sue, a federal appeals court has temporarily stopped the Education Department from forgiving loans while it considers six GOP-led states' request for an injunction against the debt relief.

The department said it would continue to process applications and identify borrowers who are automatically eligible for the debt relief program while the legal fight continues.

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