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Beyond the Numbers...



How the Student Loan Debt Relief Plan works



On August 24, 2022, President Biden announced a plan to extend the pause on student loan repayments and offer student loan forgiveness to millions of borrowers. Under the Student Loan Debt Relief Plan, eligible borrowers will have up to \$20,000 of their student loans forgiven. While we expect more details to be announced in coming weeks, this document will provide important information on the program.

Extension of the student loan repayment pause

For more than two years, repayments of federal student loan debt have been postponed. The Student Loan Debt Relief Plan extended the postponement to January 1, 2023. This provides enough time for outstanding loan balances to be adjusted for the debt relief provided by the plan.

Qualifications and the forgiveness amount

Under the Student Loan Debt Relief Plan, eligible borrowers will have up to \$20,000 of their student loan balance forgiven. The forgiveness will only apply to outstanding balances of government-held federal student loans and not to privately held loans.

The amount of loan forgiveness that a borrower is eligible to receive depends on the borrower's adjusted gross income, whether they received a Pell Grant and the amount of their outstanding federal student loan debt.



Individuals with an AGI under \$125,000, or married filing jointly with an AGI less than \$250,000, in 2020 or 2021 will be eligible for up to \$10,000 in student loan forgiveness. Borrowers who received a Pell Grant can receive up to an additional \$10,000 in loan forgiveness.

While the total potential amount of debt forgiveness for a borrower is \$20,000, it is capped at the amount of federal student loan debt a borrower has. For example, if a borrower has \$5,000 of federal student loan debt, then the borrower is eligible for a maximum of \$5,000 in student loan forgiveness.

How will the forgiveness work?

The U.S. Department of Education already has income data on nearly 8 million borrowers. If you are one of the 8 million, you will receive debt forgiveness automatically and receive an email and text to that effect. It's important to make sure your contact details on studentaid.gov are current.

If the U.S. Department of Education does not have your income data, you'll need to apply for the forgiveness through the studentaid.gov website. The application will be made available in early October 2022. You can sign up to receive email updates at ed.gov/subscriptions.

Officials are encouraging eligible borrowers to apply by November 15, 2022, because the applications are anticipated to take roughly 4-6 weeks for review and approval. By applying prior to November 15, borrowers can receive the loan forgiveness by the time student loan payments resume in January 2023. The deadline for applications is December 31, 2023.

If the borrower still has a remaining loan balance after the relief, their repayment plan will be re-amortized. Essentially, the government will recalculate the borrower's new monthly payment based on their reduced loan balance. This will result in lower monthly payments for borrowers who still have remaining balances.



Public Service Loan Forgiveness Program

If you have worked in public service for 10 years or more, you may be eligible to have all your student debt canceled under the Public Service Loan Forgiveness program. This program forgives the remaining balance on your federal student loans after making 120 payments working full-time for federal, state, Tribal, or local government; military; or a qualifying non-profit.

Borrowers who have not made 120 payments or not worked in public service for 10 or more years are allowed to enroll in the program in order to receive forgiveness once those qualifications have been met. Borrowers have until October 31, 2022 to enroll. For more information on Public Service Loan Forgiveness program, visit <https://www.whitehouse.gov/publicserviceloanforgiveness/>.

Some states may tax the forgiveness

While the student loan forgiveness amounts will not be taxable at the federal level, several states may tax the amount forgiven. However, the Student Loan Debt Relief Plan was only recently announced and many states are now working on guidance and perhaps legislation to address tax treatment. Therefore, we suggest working closely with your CPA to stay abreast of updates on how your state will treat the amount forgiven.



Final Thoughts

This document is intended to provide a brief overview of the Biden Administration's student loan forgiveness program and is not a substitute for speaking with one of our expert advisors. If you'd like to learn more about student loan forgiveness and how it may affect you, please contact our office.



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Cain Ellsworth:

Sheldon, IA Office
1008 Third Avenue
PO Box 449
Sheldon, IA 51201

Sioux Falls, SD Office
5130 E 57th Street
Sioux Falls, SD 57108



IA - (712) 324-4614
SD - (605) 610-4611



sdykstra@cainellsworth.com



www.cainellsworth.com