

STUDENT LOANS

Biden's Student Loan Forgiveness: What it Means for You

Biden's long-awaited announcement on whether or not his administration will forgive a portion of federal student loans is in. Here's what it means for you.



Getty Images

It's been a long time coming, but President Biden along with his advisors will announce their plan to address the ongoing student loan crisis. In keeping with a promise he originally made back in 2020, Biden plans to forgive up to \$10,000 of federal student loans for borrowers who make less than \$125,000 annually.

This current plan differs from proposals floated earlier this summer, including more generous proposals to forgive up to \$50,000 of federal student loans, and another that set income eligibility requirements at \$150,000 or less for single taxpayers. A few critics are saying the plan doesn't go far enough.

"President Biden's student loan forgiveness is a step forward, but it barely makes a small dent in the \$1.7 trillion Americans currently owe in student debt," says Kristen Carlisle, General Manager, Betterment at Work, a 401(k) retirement plan provider.

This new plan also forgives up to \$20,000 in federal student loans for Pell Grant recipients as well. And it tweaked the income-driven repayment plan. Now, those with undergraduate loans can cap repayment at 5% of their monthly income.

What Does This Mean for You?

A large swath of federal borrowers will have either a portion of their loans forgiven or see their debt canceled completely. According to a recent piece from the Wall Street Journal, up to 15 million borrowers will come out debt-free thanks to the administration's plan.

If you owe more than \$10,000 in federal student loans, your balance will be reduced. Plus, the moratorium pausing federal student loan payments is extended through the end of the year. But don't let partial loan forgiveness and another payment extension stop you from creating a plan to pay back your remaining loan balance.

Now may be the time to contact your lender and make payments on your currently lower balance, taking advantage of the moratorium's zero percent interest rate. If you were considering refinancing your federal student loan into a private loan, still hold off until the moratorium officially ends.

Are There Any Tax Implications?

No. Thanks to the American Rescue Plan, this debt relief will not be treated as taxable income for federal income tax purposes.

Because student loans are debts that are intended to be repaid with interest, they are not taxable income and do not need to be reported as such on your tax return. However, you can deduct student loan interest on your income tax return.

What About Borrowers with Private Student Loans?

The Biden plan does not include relief for private student loans. These loans are issued by financial institutions such as banks or credit unions, not the Education Department.

NYSUT NOTE: With the recent announcement of student loan forgiveness and the extended pause on payments, are you looking for guidance on what's next for your student loans? The NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling program is here to help. NYSUT members are eligible to receive free, no-obligation, debt and student loan consultations with one of Cambridge's certified counselors. Find out what is the next step for your student loan re-payment plan by [visiting the website](#) for more information or connecting with a counselor today.

Kiplinger

Kiplinger is part of Future plc, an international media group and leading digital publisher
© 2022 Future US LLC