

STUDENT LOANS

Student Loan Refunds Are Real, But You Might Not Be Eligible

Since President Biden announced broad student loan debt relief, there has been a lot of talk about so-called pandemic student loan refunds, which surprisingly have been around for a little while.



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With all the talk about President Biden's student loan debt cancellation, you may be hearing about other ways to potentially maximize your student loan relief. One idea involves requesting a refund of student loan payments made during the pandemic pause. But it is important to know that not everyone is eligible for so-called pandemic student loan refunds.

So, here's a little information about how student loan refunds for payments made during the pandemic work—which hopefully can help you determine whether requesting a refund is right for you.

Who is Eligible for a Student Loan Refund?

As you may know, federal student loan payments have been on pause since March 2020 and the payment pause was just extended through December 31, 2022. As a result, millions of borrowers haven't had to pay their regular student loan payments, or interest on those payments, for more than two years.

However, despite the pause, some people chose to continue making payments on their student loans.

To offer relief for those borrowers, the federal government has said that if you have a qualifying direct federal student loan and made payments during the pandemic payment pause, you can request a refund for any student loan payment that was made—beginning March 13, 2020.

So, how long has the federal government been refunding student loan payments? The Federal government began offering student loan refunds about a year ago—long before President Biden’s recent announcement on broad student loan forgiveness.

And as you might have already guessed, payments made on private student loans aren’t eligible for refunds under this program.

How Student Loan Refunds Work

To request a refund for federal student loan payments made during the pandemic pause, you have to contact your loan servicer. (Your servicer is the company that the Department of Education assigned to handle the billing and other services on your federal student loan.) They likely have information about student loan refunds on their website and should be able to help you determine whether your loan payments are eligible for refund.

When you contact your loan servicer, you may be asked to provide information about the payments that you made during the pandemic pause and the amount that you want refunded.

Once you request a student loan refund, there will be a wait before you receive your money. The refunds aren’t automatic because loan servicers need to process refund requests through the Department of Education. That can take anywhere from six to twelve weeks for some servicers and borrowers, and from 90 to 120 days for others.

Generally, though, if you are eligible for a refund, your payments can be refunded to you in the same way that you made them. For example, if you made your payments electronically, your refunds can usually be sent to the same bank account that you used to make the original payments. Additionally, the Department of Education has clarified that auto-debited payments are eligible to be refunded.

Will You Pay Taxes on Your Student Loan Refund?

Normally, the IRS considers forgiven debts to be taxable income. So, that has been the cause of some confusion about student loans and taxes. But the White House has indicated that under the American Rescue Plan Act, which was enacted during the COVID-19 pandemic, student loan relief is not considered taxable income for federal income tax purposes through 2025. That means that for now, you shouldn’t be taxed on refunds of federal student loan payments made during the pandemic, or on cancelled amounts from federal student loan forgiveness.

A note on state taxes: However, it is unclear right now whether some states will still tax student loan forgiveness. The Tax Foundation has reported that at least thirteen states might ultimately tax cancelled student loan debt. So, keep an eye out for information on this from your state.

Should You Request a Student Loan Refund?

Since this refund program has been around for about a year, some borrowers have already completed the refund process, or are waiting for their funds to be refunded. But you might not have heard about this opportunity until now and may be wondering whether you should request

a refund. (Some people hope that the combination of a student loan refund and the newly announced student loan forgiveness will help put more money in their pocket.)

Unfortunately, until the Department of Education releases more guidance on how President Biden's student loan forgiveness will work, it is hard to know exactly how your student loan refund and student loan forgiveness (if you're eligible for both), will be calculated on your loan balance.

So, stay tuned and informed. More information should be coming soon from the Department of Education on how millions of student loan holders, like you, can possibly reduce or eliminate their loan balances. Hopefully, that will include guidance on whether and how student loan debt cancellation and student loan refunds do, or do not, work together.

NYSUT NOTE: Find out if you're eligible for a student loan refund and what you should do next by contacting the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling program. NYSUT members are eligible for free, no-obligation debt and student loan consultations with Cambridge's certified counselors, who will help determine the most appropriate course of action for your specific situation. [Visit the website](#) for more information or to connect with a counselor today.

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