SUNLIGHT TAX

UPDATED 3/12/25

President Trump signed an executive order on Friday 3/7/25 to limit the Public Service Loan Forgiveness Program (PSLF). The PSLF program forgives loans of public servants like teachers and police officers as well as people working in non-profits after 10 years of making payments. The order is vague and possibly illegal/unenforceable. Applications for the program were removed from the Department of Education website. There appears to be no immediate effect, other than the removal of applications.

Applications for several additional income-driven repayment programs were removed from the Department of Education website in February.

The Department has given little information, despite Democratic lawmakers' requests. It appears that it was in response to litigation over President Biden's Saving on a Valuable Education (SAVE) Plan (info on that below). However, applications for *all* plans were removed, not just the SAVE plan.

What we do know:

- Approximately 50% of Department of Education workers have been laid off.
- There are 46 million Americans with Federal student loan debt
- 8 million Americans are in the SAVE plan.
    - These 8 million borrowers are currently in an interest-free loan forbearance, pending litigation.
- The various income-driven repayment programs, of which there are several, are based on a 2007 law enacted by Congress. They cannot be overturned without Congressional approval. An executive order cannot repeal it. Congressional action requires 2 years of public comment, so the earliest the PSLF repeal could go through would be 2027.
- Beginning on Apr 1, 2025, borrowers who are more than 90 days delinquent on their Federal student loans will be reported to the credit bureaus.
    - This is a serious blow to your credit score
    - Do not ignore letters from your loan servicer. If you are required to make payments, you must do so.
- 41% of all Federal student loan borrowers are currently not making loan payments.
- Go to www.studentaid.gov to check your current loan status.
- Watch Congress for changes. The bill to extend tax cuts may attempt to change student loan repayments.

Actions:

- Stay current with your loan obligations
- Document all your payments
- Locate and document your approval for any loan forgiveness program you are in.

*** I have made every effort to check my facts for accuracy, but please check your own facts and circumstances to know what is accurate for your own loans and do not rely solely on this report.

This section (below) reported to you on 9/25/23:
Your Complete Guide to the New Student Loan Forgiveness/SAVE

The big picture:

Federal student loan Interest starts accruing again Sep 1, 2023
Loan payments start Oct 1, 2023
The Biden Administration's second attempt at a student loan forgiveness plan is called the SAVE plan: Saving on a Valuable Education Plan

The SAVE plan stands on much more solid legal footing. Congress approved the authority of the Department of Education to create income-driven repayment plans in 1993, under President Clinton. So the Supreme Court cannot say that this lacks Congressional approval - it already has it.

What does the SAVE plan do?

- It caps your repayment at 5 percent of your monthly discretionary income
- ⅕ of borrowers will pay $0
- There is a path to loan forgiveness
- But you have to opt in.

In this lesson, I will:

1. Give you the details
2. Give you some reassurance that this will remain law
3. Tell you how to opt in and your next steps

The SAVE plan: Saving on a Valuable Education Plan

- This is an Income driven repayment plan
- Bases payment on family size and income
- It's generous.
- About 1 Million more people qualify for $0 payments than under current law

1. Income floor for living expenses

SAVE raises the floor to 225% of the Federal poverty guideline (from current 150%)
Example: a single borrower: earning < $32,805/year or a family of 4 earning < $67,500/year will not have to make payments

2. If you make your payments, including $0 payments if eligible, no interest will accrue
   This is new.
3. Undergrad loan borrowers see a huge reduction in monthly payments- up to ½ their monthly payments, because of a change in the calculation.
   The "Assessment rate"
   The Department of Education will base your payment on 5% of remaining discretionary income (aka, the income above the "floor"), not 10% as under current repayment plans.

4. Forgiveness is still possible, and generous.
   If you borrow for undergrad < $12,000, you get loan forgiveness in 10 years.
   Each $1k over $12,000 adds 1 year to forgiveness timeline
   Example: if you borrowed $15k for undergrad, that's 3k over 12k, so you would have loan forgiven after 13 years of payments
   Very large undergrad loans: forgiven after 20 years of payments
   Graduate student debt: 25 years of payments, but still benefit from more generous payment terms

5. Timeline:
   The forgiveness pieces go into effect in 2024.
   The $0 payments and 0 interest go into effect Sep 1, 2023

6. SAVE: Who is eligible?
   Federally held loans only. This includes:

- Direct subsidized, unsubsidized and consolidated loans
- PLUS graduate loans
- If you have FFEL (Fed Family Ed Loans) or Perkins Loans, that are held by a commercial lender, you need to consolidate into federal direct loan to qualify.
- Parents w/Parent PLUS loan: not eligible

7. This is a permanant program. Not one-time like the one the Supreme Court struck down.
   Future borrowers will be eligible

8. How to apply:

- You must opt in.
- On the Federal student aid website, there's a calculator where you can see what your payments would be under the new plan
- Go to studentaid.gov

- If you are in the REPAYE plan (find out at studentaid.gov, and click “my aid” under the “My info” sidebar), you will be automatically moved into the SAVE plan.

9. Timing: There is a time lag, so do this ASAP.
   It may take a few weeks to verify your info
   Dept of Ed is redesigning process:
   Option to opt into IRS integration, auto allow access to tax returns to Department of Education
   This will mean you don’t need to update/reapply each year.

One more program:

Fresh start helps borrowers get back into good standing.
- For federal student loan borrowers who were in default before forbearance 3/20
- They can enter the new IDR plan
- they can take out new federal student loans
- they can clean up their credit score

Some facts about the SAVE plan:

- 1/5 of borrowers will not pay a dime
- $6100 back for every 10k loaned by federal government
- Biden administration has tried to pass universal pre-K and community college free, and temporarily did expand child tax credit
- Congress approved this in 1993 under President Clinton. It gave legal authority to the Secretary of Education to design income-driven repayment plans, which is what the SAVE plan is.
- Because the SAVE plan is based on legal authority granted by Congressional approval, it’s on stronger legal footing than the last version.

A note for your taxes:
- loan forgiveness is considered taxable income
- if you get a loan forgiven, expect a tax document that reports that forgiven amount as taxable income.

Takeaways:
- interest accrues starting 9/1/23
- loan payments resume 10/1/23
- Understand how your budget will need to change to accommodate your repayment.
- Set up your account with your new student loan servicer if that service or has changed
- Go to Studentaid.gov to find out what plan you are on now, and opt into the SAVE plan.

- Lastly: Beware of scams

Links: https://studentaid.gov/