

United States Senate

WASHINGTON, DC 20510

November 9, 2025

Scott Bessent
Secretary of the Treasury & Acting IRS Commissioner
U.S Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Secretary Bessent:

We write with serious concern regarding Republicans' impending "tax bomb" for Americans using income-driven-repayment (IDR) plans to repay their federal student loans. If neither the Trump Administration nor the Republican-controlled Congress act soon, families who earn student debt cancellation after paying their loans for decades will be hit with surprise tax hikes—as high as \$10,000 in many cases—starting next tax year.¹ Using administrative authorities available under federal law, the Treasury Department and Internal Revenue Service (IRS) should move immediately to avoid this financial disaster for working-class Americans.

Background

In 1993, Congress created the IDR system to respond to the growing problem of student loan borrowers unable to afford their monthly payments.² IDR plans lowered monthly bills for millions of borrowers by adjusting their payments based on income and family size.³ And because those lower payments could extend borrowers' repayment timelines, Congress added a critical safety valve: after borrowers on IDR plans paid their loans for a set period of time—either 20 or 25 years—the federal government would discharge those debts, relieving families of a lifetime of student loan repayment.⁴

Unfortunately, for years, the promise of IDR cancellation was more mirage than reality. As of January 2021, of the 4.4 million borrowers in IDR repayment for at least 20 years, only 32—less than three dozen—had received cancellation.⁵ To right this systemic failure, the Biden Administration implemented sweeping reforms to the IDR system, including new accountability

¹ Protect Borrowers, "How the 'One Big Beautiful Bill Act' Law Will Raise Taxes for Thousands of Student Loan Borrowers," memorandum, November 2025, pp. 1-2, <https://protectborrowers.org/wp-content/uploads/2025/10/OBBBA-Tax-Bomb-Memo.pdf>.

² The Institute for College Access and Success, "Income-Driven Repayment 101," December 2024, pp. 1, 3, <https://ticas.org/wp-content/uploads/2024/12/IDR-101-12.6.24.pdf>.

³ *Id.* at 1.

⁴ *Id.* at 2, 4.

⁵ National Consumer Law Center & Student Borrower Protection Center, "Education Department's Decades-Old Debt Trap: How the Mismanagement of Income-Driven Repayment Locked Millions in Debt," March 2021, pp. 1, 9 n.3, https://www.nclc.org/wp-content/uploads/2022/08/IB_IDR.pdf.

measures for federal student loan servicers.⁶ As a result, by the time President Biden left office, over one million borrowers had received IDR discharge, and approximately 3.6 million more had had their accounts adjusted to move closer to relief.⁷

For borrowers who received IDR cancellation under the Biden Administration, the tax treatment of that cancellation was unambiguous. Due to a provision passed by Congress in 2021, the value of IDR cancellation was *not* treated as taxable federal income.⁸ But that provision is about to expire at the end of this year—and without action from the Trump Administration or Congress, the consequences could be devastating for future beneficiaries of IDR discharge.⁹ A new economic analysis shows that a typical family headed by a borrower receiving IDR cancellation (i.e., a married parent with two children earning \$50,000 a year) would see a \$8,789 spike in their tax bill; the same borrower making \$40,000 annually would see an even higher tax hit because of reduced access to the Earned Income Tax Credit: \$10,295.¹⁰ For many borrowers, these costs are simply too high to bear. Sixty-two percent of IDR cancellation recipients have household incomes of \$50,000 or less, and 64 percent of recipients have less than \$1,000 in non-retirement savings.¹¹ These families should not be financially punished for earning debt relief after decades of student loan repayment.

The Trump Administration Should Use Its Legal Authorities to Defuse the Tax Bomb

To protect working-class families, the Trump Administration should use existing administrative authorities—such as the insolvency exclusion, the scholarship exclusion, and the general welfare exclusion—to defuse the approaching IDR “tax bomb.”¹²

a. Insolvency Exclusion and Administrative Discretion

⁶ Protect Borrowers, “In Last Remaining Days of Biden Administration, Education Department Announces Final IDR Account Adjustment Payment Counts to Help Protect Credit Towards Critical Student Debt Relief for Vulnerable Borrowers and Public Service Workers,” press release, January 16, 2025, <https://protectborrowers.org/final-idr-account-adjustment-payment-counts-announced>.

⁷ Center for American Progress, “Tracker: Student Loan Debt Relief Under the Biden-Harris Administration,” Sara Partridge & Madison Weiss, September 4, 2024, <https://www.americanprogress.org/article/tracker-student-loan-debt-relief-under-the-biden-harris-administration>; Federal Student Aid, “Payment Count Adjustments Toward Income-Driven Repayment and Public Service Loan Forgiveness Programs,” <https://studentaid.gov/announcements-events/idr-account-adjustment>.

⁸ New America, “The GOP’s Student Loan Forgiveness Trap: Leaving with a Surprise Tax Bill,” Wesley Whistle, July 10, 2025, <https://www.newamerica.org/education-policy/edcentral/the-gops-student-loan-forgiveness-trap-leaving-with-a-surprise-tax-bill>.

⁹ *Id.*

¹⁰ The increase in these borrowers’ tax bills is derived both from direct increases to their tax liability and the loss of access to tax credits. Protect Borrowers, “How the ‘One Big Beautiful Bill Act’ Law Will Raise Taxes for Thousands of Student Loan Borrowers,” memorandum, November 2025, pp. 5-6, <https://protectborrowers.org/wp-content/uploads/2025/10/OBBBA-Tax-Bomb-Memo.pdf>.

¹¹ Consumer Financial Protection Bureau, “Insights from the 2023–2024 Student Loan Borrower Survey,” November 2024, pp. 5, 55, https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey_Report.pdf.

¹² As a general matter, the Treasury Department and IRS have the authority to prescribe regulations to enforce the tax code under 26 U.S.C. § 7805.

The Treasury Department and IRS could deliver a safe harbor for IDR cancellation recipients using the “insolvency exclusion” and their administrative discretion, as the Trump Administration has previously done for recipients of closed school discharge and borrower defense to repayment.¹³

Federal statute dictates that gross income shall not include debt cancellation when a taxpayer is insolvent.¹⁴ As explained in 26 U.S.C. § 108, insolvency is “the excess of liabilities over the fair market value of assets,” and the amount excluded from income “shall not exceed the amount by which the taxpayer is insolvent.”¹⁵

There is significant evidence that many IDR beneficiaries are insolvent at the time of discharge. The average cancellation amount under the Biden-era IDR account adjustment was \$49,321.¹⁶ Consumer Financial Protection Bureau data show that the typical IDR cancellation recipient has far fewer assets than the average IDR cancellation balance. Sixty-two percent of IDR recipients have less than \$10,000 in retirement savings, with 37 percent possessing no retirement account whatsoever.¹⁷ Further, 50 percent of IDR beneficiaries have zero non-retirement savings, and nearly all recipients—98 percent—have less than \$20,000 in non-retirement savings.¹⁸ Put another way, the median IDR beneficiary has less than \$10,000 in savings in total, far below the average discharge amount of approximately \$50,000. These data are sufficient to establish insolvency for the typical recipient of IDR cancellation.

However, proving that these borrowers are insolvent on an individual basis would be an administrative nightmare for taxpayers and the IRS. Filing for the insolvency exclusion is a notoriously complex process for taxpayers. To demonstrate insolvency, taxpayers must fill out Form 982, “Reduction of Tax Attributes Due to Discharge of Indebtedness”—if the taxpayer is even aware of the option—after receiving Form 1099-C, “Cancellation of Debt.”¹⁹ Not only has the National Taxpayer Advocate “for years described the difficulty taxpayers encounter in understanding Form 1099-C and preparing Form 982,” but “[c]ompounding the difficulty, the IRS no longer assists taxpayers with return preparation at its walk-in sites,” and “[s]tudent loan cancellation of debt is ‘out of scope’ for both the Volunteer Income Tax Assistance (VITA) program . . . and the Tax Counseling for the Elderly (TCE) program.”²⁰ The administrative burden for IRS employees is similarly onerous. Processing individual Form 982s for tens of

¹³ Rev. Proc. 2020-11, 2020-6 IRB 406.

¹⁴ 26 U.S.C. § 108(a)(1)(B).

¹⁵ 26 U.S.C. § 108(a)(3), (d)(3).

¹⁶ Protect Borrowers, “How the ‘One Big Beautiful Bill Act’ Law Will Raise Taxes for Thousands of Student Loan Borrowers,” memorandum, November 2025, p. 5 n.18, <https://protectborrowers.org/wp-content/uploads/2025/10/OBBBA-Tax-Bomb-Memo.pdf>.

¹⁷ Consumer Financial Protection Bureau, “Insights from the 2023–2024 Student Loan Borrower Survey,” November 2024, p. 54, https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey_Report.pdf.

¹⁸ *Id.* at 55.

¹⁹ IRS, “About Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment),” <https://www.irs.gov/forms-pubs/about-form-982>; IRS, “About Form 1099-C, Cancellation of Debt,” <https://www.irs.gov/forms-pubs/about-form-1099-c>.

²⁰ National Taxpayer Advocate, “Annual Report to Congress - 2017,” January 2018, pp. 336-37, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC17_Volume1_LR_10_CancellationStudentLoans.pdf.

thousands of IDR recipients is incredibly time-consuming, a task made even more difficult by recent staffing reductions at the agency.²¹ As the National Taxpayer Advocate argued in its annual report to Congress, a taxpayer on an IDR plan “may be unlikely to have acquired assets in excess of liabilities, i.e., he or she may qualify for the insolvency exception, but will be burdened by the requirement to file Form 982. Consuming IRS resources in the ensuing case-by-case determinations appears inefficient in relation to the amount of taxable income that would likely result.”²²

Thus, given the data demonstrating the likelihood of insolvency for many IDR discharge recipients and the extraordinary administrative burden of processing individual insolvency requests for taxpayers and the IRS, the agency should issue a blanket safe harbor for IDR cancellation recipients. Importantly, there is precedent for such an action. In Revenue Procedure 2020-11, the IRS delivered safe-harbor relief to borrowers whose student loans were discharged pursuant to closed school discharge or defense to repayment using nearly identical reasoning.²³ As the agency explained:

As in Rev. Proc. 2015-57, Rev. Proc. 2017-24, and Rev. Proc. 2018-39, the Treasury Department and the IRS believe that most Federal and private student loan borrowers would be able to exclude from gross income all or substantially all of the discharged amounts based on the insolvency exclusion under section 108(a)(1)(B) of the Code; fraudulent or material misrepresentations made by such nonprofit or for-profit schools or certain private lenders to the students; or other tax law authority. However, determining whether one or more of these exclusions is available to each affected borrower would require a fact intensive analysis of the particular borrower’s situation to determine the extent to which the discharged amount is eligible for exclusion under each of the potentially available exceptions. The Treasury Department and the IRS are concerned that such an analysis would impose a compliance burden on taxpayers, as well as an administrative burden on the IRS, that is excessive in relation to the amount of taxable income that would result. Accordingly, the IRS will not assert that a taxpayer within the scope of the safe harbor in this revenue procedure recognizes gross income as a result of the discharge.²⁴

The logic of Revenue Procedure 2020-11 applies with equal force to IDR discharge recipients. As established, many IDR borrowers would likely qualify for the insolvency exclusion, in addition to other exceptions like the scholarship exclusion discussed below.²⁵ But ascertaining

²¹ Federal News Network, “IRS Watchdog Warns of Tax Filing Challenges Next Year After Agency Cuts 25% of Workforce,” Jory Heckman, June 25, 2025, <https://federalnewsnetwork.com/workforce/2025/06/irs-watchdog-warns-of-tax-filing-challenges-next-year-after-agency-cuts-25-of-workforce>.

²² National Taxpayer Advocate, “Annual Report to Congress - 2017,” January 2018, p. 337, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC17_Volume1_LR_10_CancellationStudentLoans.pdf.

²³ Rev. Proc. 2020-11, 2020-6 IRB 406.

²⁴ *Id.*

²⁵ Moreover, taxpayers may be able to assert several other defenses to the taxation of IDR cancellation, including, for instance, that loans repaid using IDR plans constitute contingent liabilities. *See, e.g.*, Student Borrower Protection Center, “The Tax Treatment of Student Loan Discharge and Cancellation,” John R. Brooks, November 2020, p. 177-80, <https://protectborrowers.org/wp-content/uploads/2020/12/Delivering-on-Debt-Relief.pdf>.

the extent to which individual borrowers qualify for each of these exclusions would impose burdens on taxpayers and the IRS that are incommensurate with the revenue collected by the federal government. Hence, consistent with prior practice, the Treasury Department and IRS should provide broad-based safe-harbor relief to recipients of IDR cancellation.

b. Scholarship Exclusion

The Treasury Department and IRS could also use their authority to exclude IDR discharge from taxable income pursuant to the “qualified scholarship exclusion.”

Under 26 U.S.C. § 117, “[g]ross income does not include any amount received as a qualified scholarship” by an individual attending a degree-granting organization.²⁶ The statute defines a “qualified scholarship” as any amount received for a scholarship used for “qualified tuition and related expenses,” including “tuition and fees” and “fees, books, supplies, and equipment required for courses of instruction.”²⁷

In the 1950s and 1960s, the IRS repeatedly ruled that certain forms of student loan cancellation—namely for doctors working in underserved communities and teachers—constituted “qualified scholarships” and thus were not gross income.²⁸ The IRS determined that the key test under Section 117 was whether these programs created “an employment relationship” or the services rendered were “subject to the direction or supervision of the [scholarship] grantor.”²⁹ Because the federal and state governments were not directing the work of the teachers and doctors in question (even if qualifying doctors had to work in specific communities), debt cancellation under these programs was a “qualified scholarship.”³⁰

Soon after the IRS’s rulings, the Supreme Court upheld the agency’s regulations on the subject and emphasized the centrality of the employer-employee relationship in Section 117 analysis. In *Bingler v. Johnson*, the Court considered a challenge from Westinghouse employees who sought to exclude from their gross income the compensation they had received from Westinghouse while on leave to participate in a graduate-degree program.³¹ Under the terms of the company-sponsored program, an employee would spend their time on leave working on a doctoral dissertation relevant to Westinghouse’s work—on the condition that the employee return to Westinghouse for at least two years afterwards.³² The Supreme Court ruled that the IRS had properly concluded that the employees’ leave compensation was income because of, among other factors, (1) the employer-employee relationship, (2) the employees’ continued pay and benefits while on leave, (3) the required nexus between the employees’ dissertation topics and Westinghouse’s work, and (4) most importantly, the quid pro quo inherent in a fellowship program in which the employees were required to return to the company after the fellowship was complete.³³

²⁶ 26 U.S.C. § 117(a).

²⁷ 26 U.S.C. § 117(b).

²⁸ Tech. Adv. Memo. 5807039700A (July 3, 1958); I.R.S. Priv. Ltr. Rul. 6004275330A (April 27, 1960).

²⁹ Tech. Adv. Memo. 5807039700A (July 3, 1958).

³⁰ Tech. Adv. Memo. 5807039700A (July 3, 1958); I.R.S. Priv. Ltr. Rul. 6004275330A (April 27, 1960).

³¹ *Bingler v. Johnson*, 394 U.S. 741, 742 (1969).

³² *Id.* at 742-44.

³³ *Id.* at 755-58.

Misunderstanding the holding of *Bingler*, the IRS used the Court’s decision to reverse its earlier ruling that student debt cancellation for doctors working in underserved communities constituted “qualified scholarships.” In a brief opinion, Revenue Ruling 73-256, the agency explained that the state cancellation program “requires a substantial quid pro quo from the recipient, in that in return for receiving a medical education, he must perform services in an area selected by the grantor. Thus, although no employment relationship exists between the grantor and the grantees, the services required do not further an educational purpose and are designed to accomplish a basic objective of the grantor.”³⁴

Congress quickly responded by overruling the IRS’s revenue ruling via statute in 1976, rejecting the agency’s reasoning in a provision now codified at 26 U.S.C. § 108(f)(1).³⁵ Properly understood, *Bingler* had little relevance to the IRS’s prior decisions on the tax treatment of student debt cancellation. In fact, the core of *Bingler*’s reasoning centered on the employer-employee relationship between the grantor (i.e., Westinghouse) and the grantee (i.e., the employees)—with the quid pro quo hinging on the grantee’s returned employment at Westinghouse—while no such relationship existed in the debt cancellation programs between the grantor (e.g., the state) and the grantee (e.g., the doctor).³⁶ As the Senate Finance Committee report explained, “[p]roponents of these programs believe that the loan cancellation is not primarily for the benefit of grantor, as the Service has ruled, but for the benefit of the entire community and that the exclusion from income of the amount of indebtedness discharged in exchange for these services would further the purpose of these programs.”³⁷ Put differently, Congress’s intent with today’s Section 108(f)(1) was not to create a new exclusion for specific debt cancellation programs but rather “to return to the status quo treatment of student loan cancellation—not taxable by reason of the section 117 scholarship exclusion.”³⁸

The question thus presented—under Congress’s understanding, the framework of the IRS’s previous revenue rulings, and the reasoning of *Bingler*—is whether IDR cancellation involves an employer-employee relationship between the grantor (i.e., the federal government) and the grantee (i.e., the student loan borrower). It emphatically does not. IDR borrowers are not “subject to the direction or supervision” of the federal government, IDR cancellation is not “compensation for services” to the federal government, and IDR borrowers are not, in their capacities as borrowers, employees of the federal government.³⁹ IDR cancellation should therefore be considered a “qualified scholarship” and excludable from taxable income.

³⁴ Rev. Rul. 73-256, 1973-1 C.B. 56.

³⁵ Tax Reform Act of 1976, Pub. L. No. 94-455, § 2117, 90 Stat. 1520, 1911-12; 26 U.S.C. § 108(f)(1). Note that the *Tax Reform Act of 1976* did not specify where these changes should be inserted in the tax code, suggesting that the decision to codify these changes at Section 108, as opposed to Section 117, should be not read as indicative of Congressional intent.

³⁶ John R. Brooks, “The (Non)Taxation of Student Debt Cancellation: Statutory Misinterpretation and Normative Conflict,” 77 National Tax Journal 623, 640 (2024).

³⁷ S. Rep. No. 94-938, at 430 (1976).

³⁸ John R. Brooks, “The (Non)Taxation of Student Debt Cancellation: Statutory Misinterpretation and Normative Conflict,” 77 National Tax Journal 623, 641 (2024).

³⁹ The Institute for College Access and Success, “Income-Driven Repayment 101,” December 2024, pp. 1-2, <https://ticas.org/wp-content/uploads/2024/12/IDR-101-12.6.24.pdf>.

Notably, the result does not change even under the strained and now overruled logic of Revenue Ruling 73-256. In IDR cancellation, there is no “substantial quid pro quo” between the grantor and grantee.⁴⁰ Unlike in the state cancellation program for doctors considered by the IRS in 1973, beneficiaries of IDR provide no “service” to the federal government: they may work in whichever profession and whichever geographic area they choose and indeed are subject to no employment restrictions at all.⁴¹ And as the history of the IDR program demonstrates, Congress’s purpose in creating the IDR system was not to obtain a service but to enable working-class borrowers to afford educations that they would not have been able to receive otherwise.⁴² At most, Revenue Ruling 73-256, if operative today, would apply to programs like Public Service Loan Forgiveness—which is precisely why Congress altered the law to exclude loan cancellation from taxable income “if the individual worked for a certain period of time in certain professions.”⁴³ For IDR programs, there is no quid pro quo, the scholarship exclusion clearly applies, and no statutory exception is required.⁴⁴

Accordingly, no matter which standard is applied, both case law and the agency’s previous rulings instruct that IDR cancellation should be excluded from income as a “qualified scholarship.”⁴⁵ The Treasury Department and IRS should issue a revenue ruling to that effect without delay.

c. General Welfare Exclusion

Finally, the Treasury Department and the IRS have the authority to exclude IDR cancellation from taxable income using the “general welfare exclusion.”

⁴⁰ Rev. Rul. 73-256, 1973-1 C.B. 56.

⁴¹ The Institute for College Access and Success, “Income-Driven Repayment 101,” December 2024, pp. 1-2, <https://ticas.org/wp-content/uploads/2024/12/IDR-101-12.6.24.pdf>.

⁴² *Id.* at 1.

⁴³ 26 U.S.C. § 108(f)(1).

⁴⁴ To underscore the applicability of the scholarship exclusion to student loan cancellation, we also note that the IRS appears to *currently* apply Section 117 to canceled student loan interest. For Subsidized Stafford Loans and several IDR programs, otherwise-accrued interest is waived or cancelled. That interest is an amount owed to the government which would have been capitalized into the loan balance if unpaid. Nonetheless, the IRS has ruled that “interest subsidy payments . . . for that portion of interest that the lender agrees not to collect from the borrower . . . are scholarships within the meaning of section 117(a) of the Code and excludable from the borrower’s gross income.” Rev. Rul. 75-537, 1975-2 C.B. 32. And while Congress did amend Section 117 in 1986 to apply to “degree candidates” and not “nondegree candidates,” *see* H.R. Conf. Rep. No. 99-841, at II-15, the continued exclusion of canceled student loan interest from income for *graduates* suggests that neither the IRS nor Congress believes that the 1986 amendments were intended to remove post-graduation loan cancellation from the ambit of Section 117. Instead, it appears that Congress sought to differentiate between *degree-granting* programs and *non-degree-granting* programs with the 1986 law.

⁴⁵ To the extent that the Administration is concerned that IDR cancellation involves canceled debt outside of the textual remit of Section 117—in that qualified scholarships must be used for degree-granting programs and qualified expenses—it should not be. As a factual matter, the vast majority of student debt stems from degree-granting programs. *See* Congressional Research Service, “A Snapshot of Federal Student Loan Debt,” Rita R. Zota, February 19, 2025, pp. 1-2, <https://www.congress.gov/crs-product/IF10158>. For any residual cancelled debt that does not qualify under Section 117, the IRS could choose to assert the general welfare and insolvency exclusions discussed in this letter or extend a safe harbor to these debts given their minimal value and the administrative difficulty of determining which portion of the cancelled debts is attributable to non-scholarship income. *See* Rev. Proc. 2020-11, 2020-6 IRB 406.

Since 1938, the IRS has held that “certain payments under legislatively provided social benefit programs that promote the general welfare are excludable from a recipient’s gross income.”⁴⁶ Commentators have explained that the purpose of this exclusion is to prevent the federal government from “giving with one hand and taking away with the other.”⁴⁷ As one set of scholars has written, “it makes little sense to require a taxpayer to pay taxes on welfare benefits that she is receiving because the taxpayer lacks the resources to pay for the benefits in the first place.”⁴⁸ In accordance with this logic, the IRS has applied the general welfare exclusion to a range of government payments including “payments to the blind, mortgage assistance payments, replacement housing subsidies, vocational training payments, stipends to under-employed individuals under probation, disaster relocation payments, and payments to crime victims.”⁴⁹

“To qualify under the general welfare exclusion, payments must (i) be made from a governmental fund, (ii) be for the promotion of the general welfare (i.e., generally based on individual or family needs), and (iii) not represent compensation for services.”⁵⁰ Cancellation under IDR plans meets each of these three requirements.

First, IDR cancellation comes from a governmental fund. Historically, this prong has been relatively straightforward to satisfy, and “the fact that a payment originates in the general welfare fund appears to be assumed.”⁵¹ Here, there is no apparent reason to depart from the norm. IDR payments go to the federal government’s operating funds, so IDR cancellation stems from governmental funds that otherwise would have been recouped.⁵² The fact that the payment takes the form of a loan cancellation does not alter the analysis either: the IRS has previously ruled that the government’s waiver of a repayment obligation “is in the nature of a relief payment made for the promotion of the general welfare.”⁵³

Second, IDR discharge is a need-based benefit that promotes the general welfare. “Over time, the IRS has ruled that the need criterion is met not only when a payment determination is made based on a recipient’s financial situation but also when specific circumstances convey that a recipient has a situational need.”⁵⁴ IDR cancellation satisfies both criteria.

⁴⁶ Congressional Research Service, “The IRS’s General Welfare Exclusion,” Milan N. Ball, February 9, 2023, p. 1, <https://www.congress.gov/crs-product/IF12326>.

⁴⁷ Hao Tony Xu, “Cancel the Debt, Cancel the Tax: Exclude Student Loan Debt Relief from Gross Income Using the General Welfare Exclusion,” 75 Administrative Law Review 621, 627-28 (2023).

⁴⁸ Samuel D. Brunson & Christian A. Johnson, “Good Intentions: Administrative Fiat and the General Welfare Exclusion,” 100 Washington University Law Review 1411, 1449 (2023).

⁴⁹ Student Borrower Protection Center, “The Tax Treatment of Student Loan Discharge and Cancellation,” John R. Brooks, November 2020, p. 177, <https://protectborrowers.org/wp-content/uploads/2020/12/Delivering-on-Debt-Relief.pdf> (collecting citations).

⁵⁰ Rev. Rul. 2005-46, 2005-2 C.B. 120.

⁵¹ Tax Notes, “The General Welfare Exception to Gross Income,” Robert W. Wood & Richard C. Morris, October 10, 2005, p. 204, <https://www.woodllp.com/Publications/Articles/pdf/TN101005.pdf>.

⁵² Urban Institute, “What Would Forgiving Student Debt Mean for the Federal Budget?,” Sandy Baum & Donald Marron, December 22, 2020, <https://www.urban.org/urban-wire/what-would-forgiving-student-debt-mean-federal-budget>.

⁵³ Rev. Rul. 78-46, 1978-1 C.B. 22.

⁵⁴ Congressional Research Service, “The IRS’s General Welfare Exclusion,” Milan N. Ball, February 9, 2023, p. 2, <https://www.congress.gov/crs-product/IF12326>.

As an initial matter, enrollment in an IDR plan suggests a borrower's need—namely, an inability to afford higher education without loans and an inability to pay back one's loans on a standard plan. This notion is backed by empirical evidence: most households on IDR plans make between \$20,000 and \$60,000 annually, less than approximately 200 percent of the federal poverty line for a family of four.⁵⁵

But the demonstrated need of those receiving IDR cancellation is even more acute than those simply enrolled in IDR plans. Beneficiaries of IDR discharge are definitionally unable to pay back their loans after at least two decades of repayment.⁵⁶ And the data illustrate why. At the time of discharge, many IDR borrowers face loan balances that exceed their annual incomes: the average discharge under the IDR account adjustment was \$49,321,⁵⁷ while 62 percent of IDR beneficiaries had household incomes of \$50,000 or less.⁵⁸ A corresponding tax bill totaling several thousands of dollars would be unaffordable for these borrowers: 81 percent of IDR beneficiaries come from households with less than \$5,000 in non-retirement savings, and 64 percent have less than \$1,000 in non-retirement savings.⁵⁹ In other words, IDR cancellation is tailored to benefit low-income families who cannot afford to pay taxes on the value of that cancellation. In doing so, IDR discharge qualifies as a need-based benefit.

Third, IDR cancellation does not represent compensation for services. Generally, the IRS has disqualified payments made in an employer-employee relationship under this prong.⁶⁰ But as discussed above, recipients of IDR discharge are not required to provide any services to the federal government. Therefore, IDR cancellation satisfies the third and final prong of the general welfare exclusion test.

Conclusion

By punishing IDR beneficiaries with massive tax bills, the federal government undermines the very purpose of the IDR program and reneges on its promises to borrowers. Instead of compounding this problem by denying legally owed IDR discharge to borrowers,⁶¹ the Administration can and should deliver certainty and relief to these families as soon as possible.

⁵⁵ Urban Institute, "Who Uses Income-Driven Student Loan Repayment?," Kristin Blagg, February 20, 2018, <https://www.urban.org/urban-wire/who-uses-income-driven-student-loan-repayment>; Healthcare.gov, "Federal poverty level (FPL)," <https://www.healthcare.gov/glossary/federal-poverty-level-fpl>.

⁵⁶ Federal Student Aid, "Income-Driven Repayment Plans," <https://studentaid.gov/manage-loans/repayment/plans/income-driven>.

⁵⁷ Protect Borrowers, "How the 'One Big Beautiful Bill Act' Law Will Raise Taxes for Thousands of Student Loan Borrowers," memorandum, November 2025, p. 5 n.18, <https://protectborrowers.org/wp-content/uploads/2025/10/OBBBA-Tax-Bomb-Memo.pdf>.

⁵⁸ The same source also revealed that 88 percent of borrowers receiving IDR discharge reported household incomes of \$80,000 or less. Consumer Financial Protection Bureau, "Insights from the 2023–2024 Student Loan Borrower Survey," November 2024, p. 5, https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey_Report.pdf.

⁵⁹ *Id.* at 55.

⁶⁰ Tax Notes, "The General Welfare Exception to Gross Income," Robert W. Wood & Richard C. Morris, October 10, 2005, pp. 207-08, <https://www.woodllp.com/Publications/Articles/pdf/TN101005.pdf>.

⁶¹ The Washington Post, "Trump Administration Pauses Student Loan Forgiveness," Danielle Douglas-Gabriel, July 22, 2025, <https://www.washingtonpost.com/education/2025/07/22/trump-administration-student-loan-forgiveness-pause-ibr-plan>.

Accordingly, in light of the above analysis and as part of our legislative responsibilities to ensure the proper administration of the tax code, we request that the Treasury Department and IRS use its existing legal authorities to exclude IDR cancellation from gross income and that the agencies confirm their intent to issue such a ruling no later than November 23, 2025. Thank you for your attention to this important matter.

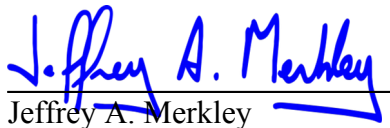
Sincerely,



Elizabeth Warren
United States Senator



Bernard Sanders
United States Senator



Jeffrey A. Merkley
United States Senator



Richard Blumenthal
United States Senator



Chris Van Hollen
United States Senator



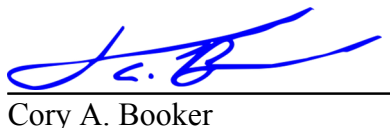
Mazie K. Hirono
United States Senator



Tammy Duckworth
United States Senator



Kirsten Gillibrand
United States Senator



Cory A. Booker
United States Senator

CC: The Honorable Linda McMahon, Secretary, Department of Education