



STATE OF SOUTH CAROLINA  
DEPARTMENT OF REVENUE

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SC INFORMATION LETTER #22-14

SUBJECT: Federal Student Loan Debt Forgiveness – SC Tax Consequences  
(Income Tax)

DATE: September 1, 2022

AUTHORITY: S.C. Code Ann. Section 12-4-320 (2014)  
S.C. Code Ann. Section 1-23-10(4) (2005)  
SC Revenue Procedure #09-3

SCOPE: An Information Letter is a written statement issued to the public to announce general information useful in complying with the laws administered by the Department. An Information Letter has no precedential value.

Student Loan Forgiveness Rules. For federal income tax purposes, the receipt of a loan is not a taxable event. Forgiveness of a loan is often treated as taxable income under Internal Revenue Code Section 61, “Gross Income Defined,” and Internal Revenue Code Section 108, “Income from Discharge of Indebtedness.”

Federal Tax Treatment of Student Loan Debt Forgiveness and Temporary Provisions. Internal Revenue Code Section 108(f) relates to student loans. The federal American Rescue Plan of 2021<sup>1</sup> (enacted by Congress on March 11, 2021), Section 9675, “Modification of Treatment of Student Loan Forgiveness,” amended Internal Revenue Code Section 108(f)(5) to temporarily add special rules for the discharge of student loans in 2021 through 2025.

Attached is a copy of Internal Revenue Code Section 108(f).

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<sup>1</sup> Public Law 117-2, March 11, 2021.

South Carolina Tax Treatment. South Carolina adopts Internal Revenue Code Section 108.

During the 2022 Legislative Session, South Carolina conformed to the Internal Revenue Code as of December 31, 2021,<sup>2</sup> including conformity to the amendment to Internal Revenue Code Section 108(f)(5), as amended by Section 9675 of the federal American Rescue Plan Act of 2021.

Since South Carolina adopts Internal Revenue Code Section 108, to the extent a student loan described in Internal Revenue Code Section 108(f) is forgiven for federal income tax purposes and excluded from federal taxable income, then the amount is also excluded from South Carolina taxable income.

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<sup>2</sup> Act No. 201, Sections 1 and 2, signed by the Governor on May 16, 2022.

Note: South Carolina's adoption of the Internal Revenue Code is not automatic and not all inclusive; in adoption of the Internal Revenue Code, South Carolina retroactively adopts the effective dates of sections. See SC Code Sections 12-6-40 and 12-6-50.

## Internal Revenue Code, § 108. Income From Discharge Of Indebtedness

### 108(f)

#### Student Loans —

##### 108(f)(1)

In General — In the case of an individual, gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) of any student loan if such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers.

##### 108(f)(2)

Student Loan — For purposes of this subsection, the term “student loan” means any loan to an individual to assist the individual in attending an educational organization described in section 170(b)(1)(A)(ii) made by—

##### 108(f)(2)(A)

— the United States, or an instrumentality or agency thereof,

##### 108(f)(2)(B)

— a State, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof,

##### 108(f)(2)(C)

— a public benefit corporation—

##### 108(f)(2)(C)(i)

— which is exempt from taxation under section 501(c)(3),

##### 108(f)(2)(C)(ii)

— which has assumed control over a State, county, or municipal hospital, and

##### 108(f)(2)(C)(iii)

— whose employees have been deemed to be public employees under State law, or

##### 108(f)(2)(D)

— any educational organization described in section 170(b)(1)(A)(ii) if such loan is made—

##### 108(f)(2)(D)(i)

— pursuant to an agreement with any entity described in subparagraph (A), (B), or (C) under which the funds from which the loan was made were provided to such educational organization, or

##### 108(f)(2)(D)(ii)

— pursuant to a program of such educational organization which is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs and under which the services provided by the students (or former students) are for or under the direction of a governmental unit or an organization described in section 501(c)(3) and exempt from tax under section 501(a).

The term “student loan” includes any loan made by an educational organization described in section 170(b)(1)(A)(ii) or by an organization exempt from tax under section 501(a) to refinance a loan to an individual to assist the individual in attending any such educational organization but only if the refinancing loan is pursuant to a program of the refinancing organization which is designed as described in subparagraph (D)(ii).

##### 108(f)(3)

Exception For Discharges On Account Of Services Performed For Certain Lenders — Paragraph (1) shall not apply to the discharge of a loan made by an organization described in paragraph (2)(D) if the discharge is on account of services performed for either such organization.

##### 108(f)(4)

Payments Under National Health Service Corps Loan Repayment Program And Certain State Loan Repayment Programs — In the case of an individual, gross income shall not include any amount received under section 338B(g) of the Public Health Service Act, under a state program described in section 338I of such Act, or under any other State loan repayment or loan forgiveness program that is intended to provide for the increased availability of health care services in underserved or health professional shortage areas (as determined by such State).

108(f)(5)

Special Rule For Discharges In 2021 through 2025 — Gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) after December 31, 2020, and before January 1, 2026, of—

108(f)(5)(A)

— any loan provided expressly for post-secondary educational expenses, regardless of whether provided through the educational institution or directly to the borrower, if such loan was made, insured, or guaranteed by—

108(f)(5)(A)(i)

— the United States, or an instrumentality or agency thereof,

108(f)(5)(A)(ii)

— a State, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof, or

108(f)(5)(A)(iii)

— an eligible educational institution (as defined in section 25A),

108(f)(5)(B)

— any private education loan (as defined in section 140(a)(7) of the Truth in Lending Act),

108(f)(5)(C)

— any loan made by any educational organization described in section 170(b)(1)(A)(ii) if such loan is made—

108(f)(5)(C)(i)

— pursuant to an agreement with any entity described in subparagraph (A) or any private education lender (as defined in section 140(a) of the Truth in Lending Act) under which the funds from which the loan was made were provided to such educational organization, or

108(f)(5)(C)(ii)

— pursuant to a program of such educational organization which is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs and under which the services provided by the students (or former students) are for or under the direction of a governmental unit or an organization described in section 501(c)(3) and exempt from tax under section 501(a), or

108(f)(5)(D)

— any loan made by an educational organization described in section 170(b)(1)(A)(ii) or by an organization exempt from tax under section 501(a) to refinance a loan to an individual to assist the individual in attending any such educational organization but only if the refinancing loan is pursuant to a program of the refinancing organization which is designed as described in subparagraph (C)(ii).

The preceding sentence shall not apply to the discharge of a loan made by an organization described in subparagraph (C) or made by a private education lender (as defined in section 140(a)(7) of the Truth in Lending Act) if the discharge is on account of services performed for either such organization or for such private education lender.