

AAPD 2018 LEGISLATIVE FACT SHEET

HRSA TITLE VII DENTAL FACULTY LOAN REPAYMENT TAX CONSEQUENCES AND PROPOSAL



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BACKGROUND: Title VII Dental Faculty Loan Repayment Authority was created due to the significant difficulties in recruiting qualified individuals to fill faculty positions, especially acute in pediatric dentistry. See the Title VII pediatric dentistry appropriations fact sheet for more information on this program and how it fills a critical national need.

PROBLEM: There is no provision to alleviate taxation of such payments to the individual, or payments to offset the recipient's tax liability. This limits the effectiveness of the program in recruiting and retaining primary care dental faculty.

SOLUTION: Modify the tax code to exempt loan repayments under this program from income tax. Specifically, insert a new subparagraph (5) in 26 USC § 108 as highlighted below:

26 USC § 108 - Income from discharge of indebtedness

(f) Student loans . . .

(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.¹

(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).

(5) Payments under dental faculty loan repayment program

In the case of an individual, gross income shall not include any amount received under section 748 (a) (2) of the Public Health Service Act related to dental faculty loan repayment, notwithstanding paragraph (f) (3) of this section.

¹IRS Guidance: <http://www.irs.gov/publications/p970/ch05.html> indicates that: "The cancellation of your loan doesn't qualify as tax-free student loan cancellation if your student loan was made by an educational institution and is canceled because of services you performed for the educational institution or other organization that provided the funds." Hence the proposed exception from paragraph (f) (3).