

State Loan Repayment Tax Exclusion

In the past, loan repayments to participants of federal or state health professions loan repayment programs were considered taxable income and taxed at 39 percent of the loan repayments by the Internal Revenue Service (IRS). In 2004, a federal law was passed that excluded loan repayment awards from being treated as taxable income for health professionals participating in a National Health Service Corps program, or state programs operating under federal rules. This change did not affect state-funded loan repayment programs in states that had set up their own programs.

The Patient Protection and Affordable Care Act (ACA) authorized student loan repayment tax relief by including state funded loan repayment programs as eligible for exemption from federal income taxation.

Now, payments made under the National Health Service Corps or any 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 are excluded from gross income, effective for amounts received by an individual in tax years beginning after Dec. 31, 2008.

Who qualifies for this exemption?

Recipients of State loan repayment or loan forgiveness awards and NHSC awardees who received awards after December 31, 2008. These health professionals and their employers also may be entitled to a refund of taxes paid under the Federal Insurance Contributions Act on payments covered under the new exclusion.

How can I amend prior years' taxes?

Health care professionals who have already filed for 2009 may exclude eligible amounts by filing Form 1040X, Amended U.S. Individual Income Tax Return. This form can be downloaded from the IRS website (<http://www.irs.gov/pub/irs-pdf/f1040x.pdf>) or obtained by calling the IRS toll-free at 1-800-TAX-FORM (1-800-829-3676). Individuals filing Form 1040X to claim this exclusion should write "Excluded student loan amount under 2010 Health Care Act" in the Explanation of Changes box. Health care professionals may request an employer or other issuer to provide a Form W-2c, Corrected Wage and Tax Statement, or 1099 and may attach the corrected form to the Form 1040X. However, the Form 1040X may also be filed without attaching a corrected form.