



SEN. GEORGE RUNNER (RET.)

VICE CHAIR
STATE BOARD OF EQUALIZATION
CALIFORNIA'S TAX BOARD

April 3, 2015

Assembly Member Philip Y. Ting, Chair
Assembly Committee on Revenue and Taxation
1020 N Street, Room 167A
Sacramento, CA 95814

RE: ASSEMBLY BILL 1055 (BAKER) – PIT LAW: EXCLUSION: STUDENT LOAN DEBT FORGIVENESS: DISABILITY - SPONSOR -

Dear Assembly Member Ting,

I am pleased to sponsor Assembly Bill 1055, which would exempt from California gross income any student loan debt that is forgiven for disability or hardship.

Under existing federal tax law, when an individual has student loan debt forgiven, it is considered taxable income. The individual receives a 1099-C (Cancellation of Debt) form and must count the amount of forgiven debt towards gross income for tax purposes. California, in general, conforms to federal law.

AB 1055 addresses an issue brought to my attention by a constituent last November. She disclosed that she suffered a disability after graduating and incurring her student loan debt. Since her only source of income was Social Security, she applied for debt forgiveness and was approved for cancellation of her remaining debt. Understandably, she was surprised to receive a 1099-C form for the full amount forgiven (\$55,000). This created both a federal and state tax liability, and the following year her monthly Social Security check was reduced based on the additional "income" shown on her tax return. Unfortunately, she continues to pay off this debt.

Last year, SB 1271 (Evans) received broad bipartisan support and ensured that no student loan borrower granted federal student loan forgiveness owes California income tax on the amount forgiven. While SB 1271 relieved state tax liability resulting from federal student loan forgiveness, it did not cover tax liability arising from student loan debt forgiveness granted through a non-federal program.

Although this bill will not help my constituent, it will protect taxpayers who have suffered a disability or hardship from having to pay taxes on phantom income earned as a result of student loan debt forgiveness. For this reason, I am pleased to sponsor AB 1055 and urge your "aye" vote when it is heard before your committee.

Sincerely,

A handwritten signature in blue ink, appearing to read "G. Runner".

GEORGE RUNNER
1st District

cc: Assemblymember Baker

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