

MEMORANDUM

November 6, 2025

TO: Interested Parties
FROM: Protect Borrowers (formerly Student Borrower Protection Center)
RE: **How the “One Big Beautiful Bill Act” Law Will Raise Taxes for Thousands of Student Loan Borrowers**

OVERVIEW

On July 4, 2025, President Trump signed into law the congressional budget reconciliation bill known as the “One Big Beautiful Bill Act” (OBBBA). The OBBBA delivers over \$4 trillion in tax cuts to billionaires and large corporations, while making unprecedented cuts to Medicaid, the Supplemental Nutrition Assistance Program (SNAP), federal student aid, and many other programs that working families rely upon to make ends meet.

Among the many enormous policy changes made by the OBBBA, Congress made permanent the exclusion of cancelled student loan debt due to death or permanent disability from federal taxable income.¹ In the Tax Cuts and Jobs Act of 2018, Congress originally exempted loans cancelled due to death or permanent disability from federal taxation from December 31, 2017, until December 31, 2025.² Congress later expanded this federal tax exemption to include all cancelled federal student debt, including through Income-Driven Repayment (IDR) plans, as part of the American Rescue Plan Act of 2021.³ **While the OBBBA permanently extended the exclusion of cancelled debts for death and disability, millions of borrowers who are currently on track to earn debt relief under an IDR plan after January 1, 2026, will see a massive increase in their federal income tax liability and therefore have to pay thousands of dollars in additional taxes.**

The following memo provides an overview of the additional tax costs that working families could face if Congress and the Trump Administration fail to act. Specifically, we find that:

¹ One Big Beautiful Bill Act of 2025, § 70119.

² See Tax Cuts and Jobs Act of 2018, § 11031. Congress excluded both private and federal student loan balances cancelled due to death or permanent disability until December 31, 2025.

³ See American Rescue Plan Act of 2021, § 9675. Under the Higher Education Act of 1965, borrowers of qualifying federal student loans who repay their loans on a qualifying repayment plan for 20 to 25 years are entitled to the cancellation of any remaining balance. Prior to the passage of the American Rescue Plan Act, the balances cancelled through IDR had been considered taxable income.

- A borrower who has earned the average amount of debt cancelled under IDR plans **could be forced to shoulder a net loss of between \$5,800 to over \$10,000 in additional taxes and lost credits**, depending on their income and filing status.⁴
- **A married borrower with two dependents, making \$40,000 a year, could shoulder a net loss of \$10,295** in credits and additional taxes.
- **Lower-income borrowers and borrowers with children would likely be forced to pay the most**, as they stand to lose access to critical financial support programs like the Earned Income Tax Credit and the refundable portion of the Child Tax Credit.
- **Lower-income borrowers' effective tax rates would likely increase the most**, prior to the application of remaining eligible tax credits. Borrowers who earn the median income of a bachelor's degree holder (\$80,236) would see their effective tax rates double, but a **married borrower with two dependents who makes \$40,000 a year would see their effective tax rate grow over nine times**.⁵
- **Borrowers who earn loan cancellation under IDR are disproportionately from low-income backgrounds and have almost no savings or assets**. Most borrowers who earn cancellation under IDR **make less than \$50,000, and two-thirds have less than \$1,000 in savings**, while over three-quarters have less than \$5,000 in savings.⁶

BACKGROUND

I. Student Loan Cancellation

Per the Higher Education Act, federal student loan borrowers enrolled in a qualifying IDR plan are entitled to the cancellation of their remaining balances after making payments for 20 to 25 years.⁷ While the OBBBA eliminated current IDR plans for new borrowers taking on new loans after July 1, 2026, the newly established Repayment Assistance Plan (RAP) still grants borrowers cancellation after 30 years. Current borrowers with loans taken out prior to July 1, 2026, will be allowed to remain on their current repayment plans until no later than July 1, 2028,

⁴ According to data from the U.S. Department of Education, as of May 2024, borrowers identified for loan cancellation under IDR adjustments received an average of \$49,320.51 in cancelled debt. See U.S. Department of Education, Open Data Platform, *Approved Debt Relief by State*, “1024 By Forgiveness Program,” (Oct. 18, 2024), <https://data.ed.gov/dataset/approved-debt-relief-by-state/resources?resource=a4d21727-d172-4364-9b71-d90ae9690015> (archived at <https://web.archive.org/web/20250903235402/https://data.ed.gov/dataset/approved-debt-relief-by-state/resources?resource=a4d21727-d172-4364-9b71-d90ae9690015>).

⁵ Effective tax rates are relative to the borrower's actual earned income, not their income plus the balance of cancelled debt. See Projected Tax Increases, Lower-Income Borrowers (\$40,000), calculations for “married parent, two dependents.” The borrower's effective tax rate would increase from 1.5 percent to 13.9 percent, which is an increase equivalent to 927 percent of (or 9.27 times) the original rate.

⁶ Consumer Financial Protection Bureau, *Insights from the 2023-2024 Student Loan Borrower Survey*, (Nov. 2024), https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey-Report.pdf at 5, 55.

⁷ Higher Education Act of 1965, § 493C, 20 U.S.C. §§ 1087e(d)(1)(D), 1098e.



at which point they will be placed into the RAP plan or the Income-Based Repayment (IBR) plan.⁸

However, for decades, federal student loan servicers made widespread accounting and payment tracking errors that ultimately denied or improperly postponed cancellation for millions of borrowers.⁹ Under the Biden Administration, the U.S. Department of Education took significant administrative actions to correct these servicing errors, including a one-time IDR account adjustment that re-counted borrowers' qualifying payments toward loan cancellation for all Direct loans and loans under the Federal Family Education Loan (FFEL) Program held in the Department's portfolio. As a result, more than 3.6 million borrowers are at least three years closer to achieving IDR cancellation.¹⁰

II. Taxation of Cancelled Student Debt

Prior to the Tax Cuts and Jobs Act of 2018 (TCJA) and the American Rescue Plan Act of 2021 (ARPA), cancelled federal and private student loan debt was generally subject to federal income taxes.¹¹ It should be noted that debt cancelled under Public Service Loan Forgiveness (PSLF) was already exempt from federal income tax, as is debt cancelled under certain school related discharge programs, specifically Closed School Discharge, False Certification, and Unpaid Refund Discharges.¹² The TCJA and ARPA federal tax exemptions for cancelled student debt are in effect until December 31, 2025.¹³ The OBBBA failed to extend this comprehensive

⁸ Depending on when a borrower took on their loan and whether the loan was borrowed to fund an undergraduate or graduate education, IDR plans allow a borrower to access debt relief after 20-25 years of repayment. Borrowers on the Pay As You Earn (PAYE) plan, or both a student loan borrower after July 1, 2014 and on the Income-Based Repayment (IBR) plan, are eligible for cancellation after 20 years. Borrowers on the Income-Contingent Repayment (ICR) plan, or both a student loan borrower before July 1, 2014 and on the IBR plan, are eligible for cancellation after 25 years. See Consumer Financial Protection Bureau, *Student Loan Forgiveness*, (accessed Sep. 10, 2025), <https://www.consumerfinance.gov/paying-for-college/student-loan-forgiveness/> (archived at <https://web.archive.org/web/20250910221219/https://www.consumerfinance.gov/paying-for-college/student-loan-forgiveness/>).

⁹ Consumer Financial Protection Bureau, *Annual Report of the CFPB Student Loan Ombudsman*, (Nov. 15, 2024), https://files.consumerfinance.gov/f/documents/cfpb_2024-annual-student-loan-ombudsmans-report_2024-11.pdf (archived at https://web.archive.org/web/20250426023427/https://files.consumerfinance.gov/f/documents/cfpb_2024-annual-student-loan-ombudsmans-report_2024-11.pdf).

¹⁰ U.S. Department of Education, Office of Federal Student Aid, *Payment Count Adjustments Toward Income-Driven Repayment and Public Service Loan Forgiveness Programs*, (accessed Sep. 25, 2025), <https://studentaid.gov/announcements-events/idr-account-adjustment> (archived at <https://web.archive.org/web/20250920143459/https://studentaid.gov/announcements-events/idr-account-adjustment>).

¹¹ U.S. Internal Revenue Service, *Publication 4861: Cancelled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals)*, (Aug. 15, 2024), <https://www.irs.gov/pub/irs-pdf/p4681.pdf>.

¹² We additionally note that borrowers can avoid being subjected to tax increases due to cancelled debt if the debt is discharged in a Title XI bankruptcy proceeding. See U.S. Internal Revenue Service, *Publication 4861: Cancelled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals)*, (Aug. 15, 2024), <https://www.irs.gov/pub/irs-pdf/p4681.pdf> at 10-11.

¹³ American Rescue Plan Act of 2021, § 9675, 18 U.S.C. § 108(f)(5) (prior to amendment by P.L. 119-21, effective for discharges before January 1, 2026).

exemption, and will foist massive and unaffordable tax bills upon predominantly low-income borrowers enrolled in IDR plans.¹⁴

Low-income borrowers can *theoretically* avoid being subjected to tax increases due to cancelled debt if they can demonstrate that they are insolvent by showing that their financial liabilities exceed their assets. However, few people are aware of the insolvency exception, and the process for claiming it is expensive, cumbersome, risky, and simply not accessible to the vast majority of borrowers who already cannot afford additional costs in the form of an increased tax bill.¹⁵

Assisting taxpayers with cancelled student debt issues is out of scope for most Volunteer Income Tax Assistance (VITA) and other low-income tax preparation programs.¹⁶ A successful insolvency declaration for tax purposes may require borrowers to retain independent and licensed appraisers and tax preparers, which can cost hundreds to thousands of dollars.¹⁷ Given the expense and inaccessibility of this process, our projections focus on the increased costs that borrowers will be forced to bear if they are unable to submit an insolvency filing.

PROJECTED TAX INCREASES

The following projections shed light on how much *more* borrowers could be forced to pay in federal income taxes as a result of earning the average IDR student loan cancellation amount

¹⁴ See One Big Beautiful Bill Act of 2025, § 70119.

¹⁵ See U.S. Internal Revenue Service, *What if I am insolvent?*, (accessed Sep. 19, 2025), <https://www.irs.gov/newsroom/what-if-i-am-insolvent>; U.S. Internal Revenue Service, *Form 982: Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)*, (rev. Mar. 2018), <https://www.irs.gov/pub/irs-pdf/f982.pdf>; U.S. Internal Revenue Service, *Publication 4861: Cancelled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals)*, (Aug. 15, 2024), <https://www.irs.gov/pub/irs-pdf/p4861.pdf> at 6-7 (Insolvency Worksheet); U.S. Internal Revenue Service, *Publication 561: Determining the Value of Donated Property*, (rev. Dec. 2024), <https://www.irs.gov/pub/irs-pdf/p561.pdf>.

¹⁶ U.S. Internal Revenue Service, *Cancellation of Debt Issues in Scope for VITA/TCE*, (accessed Sep. 23, 2025), https://apps.irs.gov/app/vita/content/36/36_02_005.jsp; U.S. Internal Revenue Service, *Publication 4731: Screening Sheet for Nonbusiness Credit Card Debt Cancellation*, (rev. Oct. 2024), <https://www.irs.gov/pub/irs-pdf/p4731.pdf>; U.S. Internal Revenue Service, *Publication 4731-A: Screening Sheet for Foreclosures/Abandonments and Cancellation of Mortgage Debt*, (rev. Oct. 2024), <https://www.irs.gov/pub/irs-pdf/p4731a.pdf>.

¹⁷ For cost estimates of retaining an independent property appraiser, see BankRate, *How much does a home appraisal cost?*, (Mar. 3, 2025), <https://www.bankrate.com/real-estate/how-much-does-an-appraisal-cost/> (estimating that a single-family home appraisal costs \$357 on average); DailyDAC (Distressed Asset Central), *Personal Property Appraisals 101*, (Jan. 15, 2024), <https://www.dailydac.com/personal-property-appraisals/> (estimating an industry-wide daily appraisal services rate of \$1,200 to \$1,500 plus travel-related expenses if required). For cost estimates of retaining a professional tax preparer, see U.S. Internal Revenue Service, Taxpayer Advocate Service, *Most Serious Problems: At a Glance*, (2022), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_Glance.pdf (noting that the average individual taxpayer spends 13 hours and \$240 on each return); Daniel Schneider and Kristen Harknett, *The High Cost of Return: Tax Filing in the Service Sector*, Harvard Kennedy School, Malcolm Wiener Center for Social Policy, (Apr. 2022), https://shift.hks.harvard.edu/wp-content/uploads/2022/04/Tax_Filing_4_14.pdf (noting preparation costs that range from \$89 to \$594, which take up a large share of service workers' salaries); Harness, *Average Fees for Tax Advisors in 2025*, (Jan. 23, 2025), <https://www.harness.co/articles/average-fees-for-tax-advisors/> (noting that the cost of preparing an individual, complex tax filing can start at \$1,500).

(\$49,321)¹⁸ and its reclassification as taxable income. For additional assumptions and methodology information, see Appendix A. For our full tables and calculations, see Appendix B.

I. Low-Income Borrowers with an Annual Income of \$40,000

A significant majority of Pell Grant students are from families earning below \$40,000 per year.¹⁹ The following are projections for the additional taxes and losses of tax credits that borrowers and families making \$40,000 would likely be forced to bear.

Figure 1. Tax changes for borrowers earning \$40,000.

Borrower Scenario	Cancelled Debt Not Counted Toward Income	Cancelled Debt Counted Toward Income	Change in Taxes and Credits
Single borrower, no dependents	Owes \$2,372	Owes \$10,549	Pays additional \$8,178
Single parent, two dependents	Receives \$6,648 in credits	Owes \$2,843	Net loss of \$9,491
Married parent, two dependents	Receives \$8,534 in credits	Owes \$1,761	Net loss of \$10,295

- A lower-income single borrower making \$40,000 could pay an **additional \$8,178 in taxes, increasing from \$2,372 to \$10,549. Their effective tax rate would more than quadruple**, rising from 5.93 percent to 26.37 percent.²⁰
- A lower-income single-parent borrower making \$40,000 with two children could have a **net loss of \$9,491 in additional taxes and lost credits**. Specifically, the borrower could lose out on \$6,648 in additional and/or refundable credits—\$3,635 from the Earned Income Tax Credit (EITC) and \$3,013 from the Additional Child Tax Credit (ACTC), or the refundable portion of the Child Tax Credit (CTC)—and their tax liability would grow

¹⁸ According to data from the U.S. Department of Education, as of May 2024, borrowers identified for loan cancellation under IDR adjustments received an average of \$49,320.51 in cancelled debt. See U.S. Department of Education, Open Data Platform, *Approved Debt Relief by State*, “1024 By Forgiveness Program,” (Oct. 18, 2024), <https://data.ed.gov/dataset/approved-debt-relief-by-state/resources?resource=a4d21727-d172-4364-9b71-d90ae9690015> (archived at <https://web.archive.org/web/20250903235402/https://data.ed.gov/dataset/approved-debt-relief-by-state/resources?resource=a4d21727-d172-4364-9b71-d90ae9690015>).

¹⁹ Approximately 88 percent of Pell Grant recipients come from families that earn \$40,000 or less. See U.S. Department of Education, *2020-2021 Federal Pell Grant Program End-Of-Year Report, Table 003*, <https://studentaid.gov/sites/default/files/fsawg/datacenter/library/2020-2021-Pell-EOY-Tables.zip> (archived at <https://web.archive.org/web/20250325174748/https://studentaid.gov/sites/default/files/fsawg/datacenter/library/2020-2021-Pell-EOY-Tables.zip>).

²⁰ Effective tax rates are relative to the borrower’s actual earned income, not their income plus the balance of cancelled debt.

by \$2,843 (from \$0) after the application of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would increase more than fivefold**, rising from 3.47 percent to 18.11 percent.

- A married, lower-income borrower with two children making \$40,000 could have a **net loss of \$10,295 in additional taxes and lost credits**. Specifically, the borrower could lose out on \$8,534 in additional and/or refundable credits—\$5,134 from the EITC and \$3,400 from the ACTC—and their tax liability would grow by \$1,761 (from \$0) after the application of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would increase more than nine times**, rising from 1.5 percent to 13.9 percent.

II. Low-Income Borrowers with an Annual Income of \$50,000

According to a survey conducted by the Consumer Financial Protection Bureau (CFPB), roughly two-thirds of IDR loan cancellation recipients report making less than \$50,000.²¹ The following are projections for the additional taxes and losses of tax credits that borrowers and families making \$50,000 would likely be forced to bear. For assumptions, calculations, and methodology, see Appendices A and B.

Figure 2. Tax changes for borrowers earning \$50,000.

Borrower Scenario	Cancelled Debt Not Counted Toward Income	Cancelled Debt Counted Toward Income	Change in Taxes and Credits
Single borrower, no dependents	Owes \$3,571	Owes \$12,749	Pays additional \$9,178
Single parent, two dependents	Receives \$3,404 in credits	Owes \$4,878	Net loss of \$8,282
Married parent, two dependents	Receives \$5,828 in credits	Owes \$2,961	Net loss of \$8,789

- A working-class single borrower making \$50,000 could pay an **additional \$9,178 in taxes (increasing from \$3,571 to \$12,749)**. Their effective tax rate would more than **triple**, rising from 7.14 percent to 25.50 percent.

²¹ Consumer Financial Protection Bureau, *Insights from the 2023-2024 Student Loan Borrower Survey*, (Nov. 2024), https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey-Report.pdf at 5 (stating: “16 percent [of borrowers surveyed] reported receiving debt relief through IDR. For these borrowers, 62 percent had a household income of \$50,000 or less, and only 12 percent reported a household income over \$80,000”).

- A working-class single-parent borrower with two children making \$50,000 would have a **net loss of \$8,282 in additional taxes and lost credits**. Specifically, the borrower could lose out on \$3,404 in additional and/or refundable credits—\$1,529 from the EITC and \$1,875 from the ACTC—and their tax liability would grow by \$4,878 (from \$0) after the application of the non-refundable portion of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would more than triple**, rising from 5.05 percent to 18.56 percent.
- A married, working-class borrower with two children making \$50,000 would have a **net loss of \$8,789 in additional taxes and lost credits**. Specifically, the borrower could lose out on \$5,828 in additional and/or refundable credits—\$3,028 from the EITC and \$2,800 from the ACTC—and their tax liability would grow by \$2,961 (from \$0) after the application of the non-refundable portion of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would more than quadruple**, rising from 3.20 percent to 14.72 percent.

III. Average Bachelor's Degree Holder with an Annual Income of \$80,236

According to the U.S. Bureau of Labor Statistics, the average bachelor's degree holder earns \$80,236 per year.²² The following are projections for the additional taxes and losses of tax credits that borrowers and families making \$80,236 would likely be forced to bear. For assumptions, calculations, and methodology, see Appendices A and B.

Figure 3. Tax changes for borrowers earning \$80,236.

Borrower Scenario	Cancelled Debt Not Counted Toward Income	Cancelled Debt Counted Toward Income	Change in Taxes and Credits
Single borrower, no dependents	Owes \$8,551	Owes \$19,560	Pays additional \$11,010
Single parent, two dependents	Owes \$1,753	Owes \$11,531	Pays additional \$9,778
Married parent, two dependents	Owes \$671	Owes \$6,590	Pays additional \$5,919

²² Annual salary calculation of \$80,236 derived from multiplying the median bachelor's degree holder's weekly earnings (\$1,543) by 52 weeks per calendar year. See U.S. Bureau of Labor Statistics, *Employment Projections: Education Pays*, (Aug. 28, 2025), <https://www.bls.gov/emp/tables/unemployment-earnings-education.htm> (archived at <https://web.archive.org/web/20250906205728/https://www.bls.gov/emp/tables/unemployment-earnings-education.htm>).

- A single borrower could pay an **additional \$11,010 in taxes (increasing from \$8,551 to \$19,560). Their effective tax rate would more than double**, rising from 10.66 percent to 24.38 percent.
- A single borrower earning \$80,236 could **pay an additional \$2,657 in taxes on average for every \$10,000 in additional debt cancellation earned.**²³
- A single-parent borrower with two children could **pay an additional \$9,778 in taxes.** Specifically, the borrower's tax liability would grow by \$9,778 (from \$1,753 to \$11,531) after the application of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would more than double**, rising from 7.67 percent to 19.86 percent.
- A married borrower with two children could **pay an additional \$5,919 in taxes.** Specifically, the borrower's tax liability would grow by \$5,919 (from \$671 to \$6,590) after the application of the CTC. Based on their outstanding tax liability before the application of credits, **their effective tax rate would more than double**, rising from 6.32 percent to 13.70 percent.

IV. Borrower Profiles

IDR provides critical debt relief to borrowers who have been repaying their student loans for decades. For many borrowers enrolled in IDR, negative amortization and interest capitalization have led to balances ballooning to much more than the amount originally borrowed. Over half of all student loan borrowers (55 percent) experience negative amortization, meaning that their outstanding balances increase between quarters while their loans are not in education deferments.²⁴ Punishing these borrowers with hefty tax bills as a result of cancellation will only add further insult to injury. Below are the projected tax burdens of two real, anonymized student loan borrowers, calculated with the assumption that they earn the median salary of a bachelor's degree holder (\$80,236).²⁵

- Hilary is a borrower who had \$42,000 in student loans at graduation and owed \$178,000 by 2022 due to interest capitalization. She has worked continuously since graduation while being a single mother, including working for years at a pre-school that happened to be operated by a private for-profit company, excluding her from qualifying for PSLE. Student debt has prevented Hilary from getting a home, supporting her family, and retiring comfortably. She made her first qualifying IDR payment in 2001 and should earn IDR cancellation in 2026. If her \$178,000 balance is cancelled and treated as income, she

²³ See Appendix B for more information.

²⁴ Erin Dunlop Velez et. al., *The Long Journey Through Student Loan Repayment*, RTI International, (Oct. 2019), <https://www.pew.org/-/media/assets/2019/10/the-long-journey-through-student-loan-repayment.pdf>.

²⁵ See Appendix B for calculation methodology and additional assumptions.

could be forced to **pay an additional \$45,308 in taxes** (increasing from \$8,551 to \$53,858). **Her effective tax rate could increase over six times, from 10.66 percent to 67.12 percent.**

- Joe is a borrower who finished a master’s degree in 1994 and had an initial loan balance of \$55,000. After being steered into repeated forbearances and deferments, his balance ballooned to \$260,000 by 2022 due to interest capitalization. If his \$260,000 balance is cancelled and treated as income, he could be forced to **pay an additional \$73,691 in taxes** (increasing from \$8,551 to \$82,242). **His effective tax rate could increase over nine times, from 10.66 percent to 102.50 percent (more than his total real annual income).**

OBBBA TAX HIKES COULD NOT COME AT A WORSE TIME FOR WORKING FAMILIES WITH STUDENT DEBT

Borrowers who have earned student loan cancellation simply cannot afford a tax bill for thousands of dollars. To be eligible for such cancellation, current borrowers must pay between 10 to 20 percent of their discretionary income for 20 to 25 years. This constant financial pressure pushes borrowers to forego saving for an emergency nest egg, retirement, homeownership, and having children, and even to go without food, medicine, or other necessities.²⁶ A CFPB survey found that **64 percent of borrowers who receive IDR loan cancellation have less than \$1,000 in savings**, and 81 percent have less than \$5,000 in savings. The same survey additionally found that **a majority of borrowers who have had a loan cancelled were Pell Grant recipients (61.3 percent)**, and a significant majority are women (70.2 percent).²⁷

The additional tax burden that the OBBBA foists onto borrowers who earn IDR cancellation will add significant strain to the pocketbooks of working families, just as they are being squeezed by an accelerating cost of living crisis worsened by tariffs on consumer goods, a remarkably weak job market, alarming increases in indebtedness and utilization of short-term installment loans, and the largest cuts to public benefits programs in American history.²⁸ Borrowers and working

²⁶ Consumer Financial Protection Bureau, *Insights from the 2023-2024 Student Loan Borrower Survey*, (Nov. 2024), https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey-Report.pdf at 13-14; Consumer Financial Protection Bureau, *Annual Report of the CFPB Student Loan Ombudsman*, (Nov. 2024), https://files.consumerfinance.gov/f/documents/cfpb_2024-annual-student-loan-ombudsmans-report-2024-11.pdf at 5-6; BankRate, *Survey: Student loans have delayed wealth-building for Gen Z and millennial borrowers*, (Dec. 6, 2023), <https://www.bankrate.com/loans/student-loans/financial-milestone-survey/>.

²⁷ Consumer Financial Protection Bureau, *Insights from the 2023-2024 Student Loan Borrower Survey*, (Nov. 2024), https://files.consumerfinance.gov/f/documents/cfpb_Insights-from-the-2023-2024-Student-Loan-Borrower-Survey-Report.pdf at 55-56.

²⁸ CBS News, *Most Americans don’t earn enough to afford basic costs of living*, (May 16, 2025), <https://www.cbsnews.com/news/cost-of-living-income-quality-of-life/>; Ludwig Institute for Shared Economic Prosperity, *Beyond Survival*, (May 2025), https://cdn.prod.website-files.com/63ba0d84fe573c7513595d6e/68213a6dd9b89340782e1f76_MQL%20White%20Paper.pdf; CNBC, *Here’s the inflation breakdown for August 2025*, (Sep. 11, 2025), <https://www.cnbc.com/2025/09/11/inflation-breakdown-for-august-2025.html>; U.S. Bureau of



families simply cannot afford a massive tax bill next year, and foisting one upon them will only further push borrowers into deeper debt, reduce consumer spending, and harm the economy. Without legislative action, borrowers who have spent decades repaying their loans in good faith will face crushing tax bills at precisely the moment when they should be receiving relief long promised to them under law. Congress must act swiftly to protect working families, safeguard their financial well-being, and honor the commitments made to borrowers who have carried the weight of student debt for far too long.

Labor Statistics, *Consumer Price Index Summary*, (Sep. 11, 2025), <https://www.bls.gov/news.release/cpi.nr0.htm> (archived at <https://web.archive.org/web/20250924032719/https://www.bls.gov/news.release/cpi.nr0.htm>); BBC News, *US job market weakens further in August, raising fears over economy*, (Sep. 5, 2025), <https://www.bbc.com/news/articles/cn0xe5dvp47o>; U.S. Bureau of Labor Statistics, *Employment Situation Summary*, (Sep. 5, 2025), <https://www.bls.gov/news.release/empstat.nr0.htm> (archived at <https://web.archive.org/web/20250920034945/https://www.bls.gov/news.release/empstat.nr0.htm>); Federal Reserve Bank of New York, Center for Microeconomic Data, *Household Debt and Credit Report: Q2, 2025*, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2025Q2; The Commonwealth Fund, *How Medicaid and SNAP Cutbacks in the [OBBA] Would Trigger Big and Bigger Job Losses Across States*, (Jun. 23, 2025), <https://www.commonwealthfund.org/publications/issue-briefs/2025/jun/how-medicaid-snap-cutbacks-one-big-beautiful-bill-trigger-job-losses-states>.

APPENDIX A. Methodology

We calculated the tax liability and eligible refunds and credits for borrowers according to the following Internal Revenue Service (IRS) policies and assumptions:

- In accordance with federal tax policy, we assume that a typical borrower's income from student debt cancellation would be reported on a Form 1099-C and subject to federal income tax as a portion of the borrower's adjusted gross income.²⁹ We additionally assume that the borrower has no additional sources of income besides one wage income reported on a W-2, and that the borrower does not qualify for insolvency.
- Since the OBBBA cemented the tax brackets established in the Tax Cuts and Jobs Act (TCJA) which are effective through 2025, but the IRS has not yet announced interest rate adjustments to the brackets for 2026, we applied the 2025 federal income tax brackets.³⁰
- We used the 2025 formula for calculating the Earned Income Tax Credit (EITC) as updates have not been announced.
- We used the OBBBA's announced increases of the Child Tax Credit (CTC) to \$2,200 per qualifying dependent and the refundable Additional Child Tax Credit (ACTC) to \$1,700 per qualifying dependent, and increases to the standard deduction (see below).³¹
- In accordance with federal tax policy, we apply nonrefundable tax credits first (here, namely the CTC) to reduce each borrower's liability before applying refundable tax credits.³²
- For comparability, we assume that both single-parent and married borrowers have two dependents, which is the median number of children per household in 2023.³³

²⁹ U.S. Internal Revenue Service, *Instructions for Forms 1099-A and 1099-C (04/2025)*, (Mar. 20, 2025), <https://www.irs.gov/instructions/i1099ac>; H&R Block, *Cancellation of debt: What is IRS Form 1099-C?*, (accessed Sep. 11, 2025), <https://www.hrblock.com/tax-center/irs/forms/1099c-cancellation-of-debt/>.

³⁰ U.S. Internal Revenue Service, *IRS releases tax inflation adjustments for tax year 2025*, (Oct. 22, 2024), <https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2025>; H&R Block, *One Big Beautiful Bill tax changes: How and when they impact you*, (accessed Sep. 11, 2025), <https://www.hrblock.com/tax-center/irs/tax-law-and-policy/one-big-beautiful-bill-taxes/>.

³¹ U.S. Internal Revenue Service, *Refundable tax credits*, (Aug. 25, 2025), <https://www.irs.gov/forms-pubs/how-to-update-withholding-to-account-for-tax-law-changes-for-2025>.

³² U.S. Internal Revenue Service, *Lesson: Miscellaneous Credits Workout*, (accessed Sep. 18, 2025), https://apps.irs.gov/app/vita/content/26s/26_01_010.jsp?level=basic (stating: "A nonrefundable credit can only reduce the tax liability to zero. . . . Generally, nonrefundable credits are applied against federal tax in the order they are listed on Form 1040, Schedule 3, Nonrefundable Credits.").

³³ U.S. Census Bureau, *Figure FM-3. Average number of own children per family, via Current Population Survey, Annual Social and Economic Supplements, 2023*, (accessed Sep. 18, 2025), <https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/fm-3.pdf>.

- We assume that single borrowers would be single filers, while single parents with two dependents would file as head of household, and married borrowers with two dependents would file as married filing jointly. We assume that all borrowers claim the updated OBBBA standard deduction (\$15,750 for single filers, \$23,625 for head of household filers, and \$31,500 for married filing jointly) as well as the maximum amount of the student loan interest deduction (\$2,500).³⁴
- For projections of the tax bills that anonymized student loan borrowers Hilary and Joe would face if their debt is cancelled and treated as income, we assumed both borrowers are single filers with no dependents, earn the median income of a bachelor's degree holder (\$80,236), claim the \$15,750 standard deduction, and claim the full student loan interest deduction of \$2,500.
- Since borrowers do not directly receive additional funds when outstanding student debt is cancelled, our calculations for the borrowers' effective tax rates use the borrowers' real earned income (either \$40,000, \$50,000 or \$80,236) as the denominator, not their adjusted gross income after adding cancelled debt.
- Where we note that borrowers may lose access to the refundable ACTC when cancelled debt is treated as income, the lost *refundable* ACTC credit balance is technically transferred dollar-for-dollar to offset their new increased tax liability in the form of an increased *non-refundable* CTC. However, since borrowers do not see a realized increase in income due to the cancellation of debt, many will experience the loss of the refundable ACTC as a loss of real income even when it is applied to cover an increased outstanding tax liability as a non-refundable credit.

The combination of these choices is that **these projections systematically underestimate the amount that borrowers will be forced to pay** in future years as a result of the treatment of cancelled debt as income. To calculate a borrower's federal tax liability, we used a combination of manual accounting and calculators provided by financial institutions and tax preparation firms.³⁵

³⁴ U.S. Internal Revenue Service, *How to update withholding to account for tax law changes for 2025*, (Sep. 10, 2025), <https://www.irs.gov/forms-pubs/how-to-update-withholding-to-account-for-tax-law-changes-for-2025>; U.S. Internal Revenue Service, *Topic No. 456, Student loan interest deduction*, (Sep. 5, 2025), <https://www.irs.gov/taxtopics/tc456>.

³⁵ NerdWallet, *Federal Income Tax Calculator 2025*, (accessed Sep. 11, 2025), <https://www.nerdwallet.com/calculator/tax-calculator>; SurePayroll, *Earned Income Credit (EIC) Calculator*, (accessed Sep. 11, 2025), <https://www.surepayroll.com/resources/calculators/earned-income-credit-tax-calculator>.



APPENDIX B. Calculations

SCENARIO	Cancelled Student Debt Tax Policy	Pre-Tax W2 Income	Pre-Tax 1099 Income (Cancelled Debt)	Filing Status	AGI (W2 + 1099)	Claimed Standard Deduction	Claimed SL Interest Deduction	Taxable Income (AGI - Deds)	Estimated Tax Burden	ADDTL. TAX	Effective Tax Rate (to actual income)	ETR Increase (times)	EITC Estimate (refundable)	CTC Estimate (non-refundable)	ACTC Estimate (refundable)	Final Taxes Owed (after sub. CTC)	Final Refundable Credits and Refunds	Net Tax Outcome	Change due to Taxing Cancelled Debt
SCENARIO 1a: Lower-income single	Not taxed	\$ 40,000	\$ -	Single	\$ 40,000	\$ 15,750	\$ 2,500	\$ 21,750	\$ 2,371		5.93%		\$ -	\$ -	\$ -	\$ 2,371	\$ -	\$ (2,371)	
	Taxed	\$ 40,000	\$ 49,321	Single	\$ 89,321	\$ 15,750	\$ 2,500	\$ 71,071	\$ 10,549	\$ 8,178	26.37%	4.45	\$ -	\$ -	\$ -	\$ 10,549	\$ -	\$ (10,549)	\$ (8,178)
SCENARIO 1b: Lower-income, single parent, 2 dependents	Not taxed	\$ 40,000	\$ -	HOH	\$ 40,000	\$ 23,625	\$ 2,500	\$ 13,875	\$ 1,388		3.47%		\$ 3,635	\$ 1,388	\$ 3,013	\$ -	\$ 6,648	\$ 6,648	
	Taxed	\$ 40,000	\$ 49,321	HOH	\$ 89,321	\$ 23,625	\$ 2,500	\$ 63,196	\$ 7,243	\$ 5,856	18.11%	5.22	\$ -	\$ 4,400	\$ -	\$ 2,843	\$ -	\$ (2,843)	\$ (9,491)
SCENARIO 1c: Lower-income, married filing jointly, 2 dependents	Not taxed	\$ 40,000	\$ -	MFJ	\$ 40,000	\$ 31,500	\$ 2,500	\$ 6,000	\$ 600		1.50%		\$ 5,134	\$ 600	\$ 3,400	\$ -	\$ 8,534	\$ 8,534	
	Taxed	\$ 40,000	\$ 49,321	MFJ	\$ 89,321	\$ 31,500	\$ 2,500	\$ 55,321	\$ 6,161	\$ 5,561	13.90%	9.27	\$ -	\$ 4,400	\$ -	\$ 1,761		\$ (1,761)	\$ (10,295)
SCENARIO 2a: Working class single	Not taxed	\$ 50,000	\$ -	Single	\$ 50,000	\$ 15,750	\$ 2,500	\$ 31,750	\$ 3,571		7.14%		\$ -	\$ -	\$ -	\$ 3,571	\$ -	\$ (3,571)	
	Taxed	\$ 50,000	\$ 49,321	Single	\$ 99,321	\$ 15,750	\$ 2,500	\$ 81,071	\$ 12,749	\$ 9,178	25.50%	3.57	\$ -	\$ -	\$ -	\$ 12,749	\$ -	\$ (12,749)	\$ (9,178)
SCENARIO 2b: Working class, single parent, 2 dependents	Not taxed	\$ 50,000	\$ -	HOH	\$ 50,000	\$ 23,625	\$ 2,500	\$ 23,875	\$ 2,525		5.05%		\$ 1,529	\$ 2,525	\$ 1,875	\$ -	\$ 3,404	\$ 3,404	
	Taxed	\$ 50,000	\$ 49,321	HOH	\$ 99,321	\$ 23,625	\$ 2,500	\$ 73,196	\$ 9,278	\$ 6,753	18.56%	3.67	\$ -	\$ 4,400	\$ -	\$ 4,878	\$ -	\$ (4,878)	\$ (8,282)
SCENARIO 2c: Working class, married filing jointly, 2 dependents	Not taxed	\$ 50,000	\$ -	MFJ	\$ 50,000	\$ 31,500	\$ 2,500	\$ 16,000	\$ 1,600		3.20%		\$ 3,028	\$ 1,600	\$ 2,800	\$ -	\$ 5,828	\$ 5,828	
	Taxed	\$ 50,000	\$ 49,321	MFJ	\$ 99,321	\$ 31,500	\$ 2,500	\$ 65,321	\$ 7,361	\$ 5,761	14.72%	4.60	\$ -	\$ 4,400		\$ 2,961		\$ (2,961)	\$ (8,789)
SCENARIO 3a: Single borrower w BA	Not taxed	\$ 80,236	\$ -	Single	\$ 80,236	\$ 15,750	\$ 2,500	\$ 61,986	\$ 8,551		10.66%		\$ -	\$ -	\$ -	\$ 8,551	\$ -	\$ (8,551)	
	Taxed	\$ 80,236	\$ 49,321	Single	\$ 129,557	\$ 15,750	\$ 2,500	\$ 111,307	\$ 19,560	\$ 11,010	24.38%	2.29	\$ -	\$ -	\$ -	\$ 19,560	\$ -	\$ (19,560)	\$ (11,010)
SCENARIO 3b: BA holder, single parent, 2 dependents	Not taxed	\$ 80,236	\$ -	HOH	\$ 80,236	\$ 23,625	\$ 2,500	\$ 54,111	\$ 6,153		7.67%		\$ -	\$ 4,400	\$ -	\$ 1,753	\$ -	\$ (1,753)	
	Taxed	\$ 80,236	\$ 49,321	HOH	\$ 129,557	\$ 23,625	\$ 2,500	\$ 103,432	\$ 15,931	\$ 9,778	19.86%	2.59	\$ -	\$ 4,400	\$ -	\$ 11,531	\$ -	\$ (11,531)	\$ (9,778)
SCENARIO 3c: BA holder, married filing jointly, 2 dependents	Not taxed	\$ 80,236	\$ -	MFJ	\$ 80,236	\$ 31,500	\$ 2,500	\$ 46,236	\$ 5,071		6.32%		\$ -	\$ 4,400	\$ -	\$ 671	\$ -	\$ (671)	
	Taxed	\$ 80,236	\$ 49,321	MFJ	\$ 129,557	\$ 31,500	\$ 2,500	\$ 95,557	\$ 10,990	\$ 5,918	13.70%	2.17	\$ -	\$ 4,400	\$ -	\$ 6,590	\$ -	\$ (6,590)	\$ (5,918)
Borrower: Hilary	Not taxed	\$ 80,236	\$ -	Single	\$ 80,236	\$ 15,750	\$ 2,500	\$ 61,986	\$ 8,551		10.66%		\$ -	\$ -	\$ -	\$ 8,551	\$ -	\$ (8,551)	
	Taxed	\$ 80,236	\$ 178,000	Single	\$ 258,236	\$ 15,750	\$ 2,500	\$ 239,986	\$ 53,858	\$ 45,308	67.12%	6.30	\$ -	\$ -	\$ -	\$ 53,858	\$ -	\$ (53,858)	\$ (45,308)
Borrower: Joe	Not taxed	\$ 80,236	\$ -	Single	\$ 80,236	\$ 15,750	\$ 2,500	\$ 61,986	\$ 8,551		10.66%		\$ -	\$ -	\$ -	\$ 8,551	\$ -	\$ (8,551)	
	Taxed	\$ 80,236	\$ 260,000	Single	\$ 340,236	\$ 15,750	\$ 2,500	\$ 321,986	\$ 82,242	\$ 73,691	102.50%	9.62	\$ -	\$ -	\$ -	\$ 82,242	\$ -	\$ (82,242)	\$ (73,691)

Below is a detailed accounting of the application of credits and liabilities across our scenarios:

- **A lower-income single borrower earning \$40,000** would pay an additional \$8,178 in taxes, increasing from \$2,372 to \$10,549. Their effective tax rate would more than quadruple, rising from 5.93 percent to 26.37 percent.
- **A lower-income single-parent borrower with two children earning \$40,000** would have a net loss of \$9,491 in additional taxes and lost credits. Based on their outstanding tax liability before the application of credits, their effective tax rate would increase more than fivefold, rising from 3.47 percent to 18.11 percent. Without the cancelled debt being counted as income, the borrower would have a \$1,388 tax liability, which the non-refundable portion of the Child Tax Credit (CTC) would reduce to \$0. The borrower would receive \$6,648 in additional and/or refundable credits—the sum of a \$3,635 Earned Income Tax Credit (EITC) and a \$3,013 Additional Child Tax Credit (ACTC), or the refundable portion of the CTC. When the cancelled debt is counted as income, the borrower would have a \$7,244 tax liability and lose eligibility for the EITC. Their entire CTC (\$4,400) would count toward their outstanding tax liability, and they would still owe \$2,843. This is a net loss of \$9,491 in additional taxes and lost credits.
- **A married, lower-income borrower with two children earning \$40,000** would have a net loss of \$10,295 in additional taxes and lost credits. Based on their outstanding tax liability before the application of credits, their effective tax rate would increase more than nine times, rising from 1.50 percent to 13.90 percent. Without the cancelled debt being counted as income, the borrower would have a \$600 tax liability, which the non-refundable portion of the CTC would reduce to \$0. The borrower would receive \$8,534 in additional and/or refundable credits—the sum of a \$5,134 EITC and a \$3,400 ACTC, or the refundable portion of the CTC. When the cancelled debt is counted as income, the borrower would have a \$6,161 tax liability and lose eligibility for the EITC. Their entire CTC (\$4,400) would count toward their outstanding tax liability, and they would still owe \$1,761. This is a net loss of \$10,295 in additional taxes and lost credits.
- **A working-class single borrower earning \$50,000** would pay an additional \$9,178 in taxes (increasing from \$3,571 to \$12,749). Their effective tax rate would more than triple, rising from 7.14 percent to 25.50 percent.
- **A working-class single-parent borrower with two children earning \$50,000** would have a net loss of \$8,282 in additional taxes and lost credits. Based on their outstanding tax liability before the application of credits, their effective tax rate would more than triple, rising from 5.05 percent to 18.56 percent. Without the cancelled debt being counted as income, the borrower would have a \$2,525 tax liability, which the non-refundable portion of the CTC would reduce to \$0. The borrower would receive \$3,404 in additional and/or refundable credits—the sum of a \$1,529 EITC and a \$1,875

ACTC, or the refundable portion of the CTC. When the cancelled debt is counted as income, the borrower would have a \$9,278 tax liability and lose eligibility for the EITC. Their entire CTC (\$4,400) would count toward their outstanding tax liability, and they would still owe \$4,877.78. This is a net loss of \$8,282 in additional taxes and lost credits.

- **A married, working-class borrower with two children earning \$50,000** would have a net loss of \$8,789 in additional taxes and lost credits. Based on their outstanding tax liability before the application of credits, their effective tax rate would more than quadruple, rising from 3.20 percent to 14.72 percent. Without the cancelled debt being counted as income, the borrower would have a \$1,600 tax liability, which the non-refundable portion of the CTC would reduce to \$0. The borrower would receive \$5,828 in additional and/or refundable credits—the sum of a \$3,028 EITC and a \$2,800 ACTC, or the refundable portion of the CTC. When the cancelled debt is counted as income, the borrower would have a \$7,361 tax liability and lose eligibility for the EITC. Their entire CTC (\$4,400) would count toward their outstanding tax liability, and they would still owe \$2,961. This is a net loss of \$8,789 in additional taxes and lost credits.
- **A single borrower earning \$80,236** would pay an additional \$11,010 in taxes (increasing from \$8,551 to \$19,560). Their effective tax rate would more than double, rising from 10.66 percent to 24.38 percent.
- **A single borrower earning \$80,236** could pay an additional \$2,657 in taxes *on average* for every \$10,000 in additional debt cancellation earned.³⁶ A borrower who receives \$10,000 in cancelled debt would pay an additional \$2,200 in taxes (increasing their tax burden from \$8,551 to \$10,751). A borrower who receives \$50,000 in cancelled debt would pay an additional \$11,173 in taxes (increasing their burden from \$8,551 to \$19,724). A borrower who receives \$100,000 in cancelled debt would pay an additional \$23,173 in taxes (increasing their burden from \$8,551 to \$31,724). A borrower who receives \$150,000 in cancelled debt would pay an additional \$36,348 in taxes (increasing their burden from \$8,551 to \$44,898). Finally, a borrower who receives \$200,000 in cancelled debt would pay an additional \$52,691 in taxes (increasing their burden from \$8,551 to \$61,242). See Figures 4 and 5 for calculations and visualizations of these tax increases.
- **A single-parent borrower with two children earning \$80,236** would pay an additional \$9,778 in taxes. Based on their outstanding tax liability before the application of credits, their effective tax rate would more than double, rising from 7.67 percent to 19.86 percent. Without the cancelled debt being counted as income, the borrower would have a \$6,153 tax liability, which the non-refundable portion of the CTC (\$4,400) would reduce to

³⁶ The \$2,657 estimate is an average of the rate of change in additional taxes per every additional \$10,000 in cancelled student debt, between a cancelled balance of \$10,000 to \$200,000.

\$1,753. The borrower is not eligible for the EITC. When the cancelled debt is counted as income, the borrower would have a \$15,931 tax liability, which the non-refundable portion of the CTC (\$4,400) would reduce to \$11,531. The borrower would be forced to pay an additional \$9,778 in taxes.

- **A married borrower with two children earning \$80,236** would pay an additional \$5,918 in taxes. Based on their outstanding tax liability before the application of credits, their effective tax rate would more than double, rising from 6.32 percent to 13.70 percent. Without the cancelled debt being counted as income, the borrower would have a \$5,071 tax liability, which the non-refundable portion of the CTC (\$4,400) would reduce to \$671. The borrower is not eligible for the EITC. When the cancelled debt is counted as income, the borrower would have a \$10,990 tax liability, which the non-refundable portion of the CTC (\$4,400) would reduce to \$6,590. The borrower would be forced to pay an additional \$5,918 in taxes.

Figure 4. Tax increases for single borrowers earning \$80,236.

Amount of Debt Cancellation Received	Total Estimated Tax Burden	Additional Taxes due to Debt Cancellation
\$10,000	\$10,751	\$2,200
\$50,000	\$19,724	\$11,173
\$100,000	\$31,724	\$23,173
\$150,000	\$44,898	\$36,348
\$200,000	\$61,242	\$52,691

Figure 5. Visualized tax increases per \$10,000 in cancelled debt,
for single borrowers earning \$80,236.

