

# Federal Tax Exemption of Education Loan Repayment for Health Practitioners

Status Clarified by Federal Law PL 111-148, Sec 10908

Federal law (PL 111-148, Sec 10908) clarified the question of federal taxability of state loan repayment programs.

Section 10908 puts the state loan repayment programs on par with the National Health Service Corp (NHSC) and the federal State Loan Repayment Program (SLRP) programs in terms of federal exemption from taxability.

Quarterly loan repayments are made by SHARP directly to the eligible loan lenders on behalf of participating health practitioners, and therefore those repayments are determined to be exempt from federal personal income tax.

The key passage in federal law PL 111-148, Sec 10908 follows:

*SEC. 10908. EXCLUSION FOR ASSISTANCE PROVIDED TO PARTICIPANTS IN STATE STUDENT LOAN REPAYMENT PROGRAMS FOR CERTAIN HEALTH PROFESSIONALS.*

*(a) IN GENERAL. — Paragraph (4) of section 108(f) of the Internal Revenue Code of 1986 is amended to read as follows: “(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).” (Effective: 12/31/08)*

For Alaska’s SHARP Program, there are two aspects of note:

- SHARP-1 (current) and SHARP-2 (prior)

All SHARP loan repayments that have been issued to-date have all been treated by all parties as exempt from federal personal income taxation. This is not new, but rather, has been SHARP’s practice under advisement since SHARP’s beginning in 2009.

- SHARP-3: Proposed new program component

The key final phrasing in PL 111-148, Sec 10908 states, “...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).”

Thus, this language bears directly on the proposed SHARP-3 loan repayment option.

Federal Tax-Exemption (clarified in ACA) - for Health Practitioners’ Loan Repayment