

**Office of Chief Counsel
Internal Revenue Service
Memorandum**

Number: **201815016**

Release Date: 4/13/2018

CC:ITA:B05:ECReigle

POSTF-125979-17

UILC: 108.00-00, 108.05-00 Student Loans

date: January 08, 2018

to: Division Counsel
(Small Business/Self-Employed)

Attn: Mr. John Janusz

from: Shareen S. Pflanz
Senior Technician Reviewer, Branch 5
Office of Associate Chief Counsel
(Income Tax & Accounting)

subject: Tax Treatment of Loan Repayment Made Pursuant to Program P

This Chief Counsel Advice responds to your October 4, 2017, request for assistance regarding the above matter. This advice may not be used or cited as precedent.

LEGEND

State A =
Program P =
Agency B =
\$X =

ISSUES

1. Whether cash award payments made to recipients in State A's Program P, a student loan repayment program, are excludable from their gross income under § 108(f)(4) of the Internal Revenue Code (the "Code")?
2. What, if any, are the reporting requirements for these award payments?

CONCLUSION

1. Cash award payments received by recipients in State A's Program P, a student loan repayment program as more fully described herein, are excludable from recipients' gross income under § 108(f)(4) of the Code.
2. State A is not required to file or furnish any information returns with respect to the award payments made to recipients in Program P.

FACTS

State A is seeking to determine whether cash award payments given under Program P are excluded from gross income under § 108(f)(4) of the Code. Program P provides award payments to physicians who agree to practice medicine in an area of State A designated as having a shortage of physicians. State A has determined that there is a generalized shortage of health services providers for certain geographic areas of the state. Program P allows State A to target this underserved population across all needy areas of the state. Agency B in State A has established needs-based guidelines for selecting participating health care providers as well as identifying perceived need sites.

To receive a cash award payment, recipients in Program P must meet certain eligibility requirements and agree to practice medicine in a designated shortage area for no less than _____ months. Such service obligation consists of either the establishment of a practice of medicine or employment as a licensed physician in the designated shortage area in State A, or a combination of both. Recipients also must have student loans either made or guaranteed by a state or federal governmental agency or by the educational institution which the recipient attended, for the purpose of paying educational expenses at the undergraduate or medical school.

The award consists of _____ annual award payments, with the each payment dependent upon the individual fulfilling the service requirement for _____ months, and maintaining the eligibility requirements. Each annual award payment is limited to the lesser of the total of the recipient's undergraduate and medical school student loan expense or \$X. The award payments under Program P are limited to repayment of educational loans that were made for undergraduate and medical education at an accredited institution, and loans made to cover expenses at a graduate school other than medical school are not included.

LAW AND ANALYSIS

Section 61(a) of the Internal Revenue Code provides that, except as otherwise provided by the law, gross income means all income from whatever source derived, including income from compensation for services, and income from the discharge of indebtedness. Under § 61 of the Code, Congress intends to tax all gains or undeniable

accessions to wealth, clearly realized, over which taxpayers have complete dominion. Commissioner v. Glenshaw Glass Co., 348 U.S. 426 (1955), 1955-1 C.B. 207.

Section 108(f)(4) of the Code provides for the exclusion from income, of payments received under the National Health Service Corps Loan Repayment Program, and certain State loan repayment programs qualifying under § 3381 of the Public Health Service 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).” This provision is effective for amounts received by individuals in taxable years beginning or after December 31, 2008.

Our review of the purposes and operations of Program P shows that amounts received under Program P are amounts received under a 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 State A), and thus, excluded from gross income under § 108(f)(4) of the Code.

The amounts paid by State A under Program P are for loan repayment and not loan forgiveness. Therefore, there is no discharge of indebtedness requiring information reporting under § 6050P of the Code. The amounts paid under Program P are not includable in recipients’ gross incomes under § 61(a) of the Code, and are therefore not fixed or determinable income under § 6041 of the Code. Therefore, no information reporting is required under § 6041 of the Code.

This writing may contain privileged information. Any unauthorized disclosure of this writing may undermine our ability to protect the privileged information. If disclosure is determined to be necessary, please contact this office for our views.

Please call (202) 317-7006 if you have any further questions.

By: _____
Shareen S. Pflanz
Senior Technician Reviewer, Branch 5
Office of Associate Chief Counsel
(Income Tax & Accounting)