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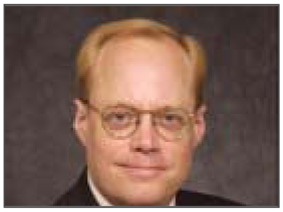

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There's No Escape: Death, Taxes And Student Loans

Candlelight Vigil (Photo credit: KOMUnews)

This is a tough topic to address. It involves taxes but is really about personal tragedy. Some taxes inevitably involve death.

For example, estate taxes are obviously explicitly linked to death. The tax treatment of wrongful death lawsuit proceeds is also inevitably linked to death. But this death and taxes story seems entirely out of left field.

Sadly, a Temple University student named Roswell Friend committed suicide in 2011. Like most students, he had student loans. Given his death, Sallie Mae wiped clean the $55,400 that he and his mother, Regina, owed for a Parent Plus Loan.

Some tax savvy readers will nod knowingly that cancellation of debt income (often shortened to "COD income") is taxable. If someone lends you money and then says you need not pay it back, it's income then. There are a few exceptions to COD income that can prevent the tax bite. See Ten Things To Know About COD Income.

Often, though, these exceptions don't help. In the sad case of the deceased Temple student, the Baltimore Sun reported that there was

COD income when the joint debt of the deceased student and his mother was discharged. And rules being rules, the IRS is trying to collect the $14,000 in taxes from the deceased student's mother. See Regina Friend Stuck With Tax Bill For Deceased Son's Student Loan Debt After It Was Discharged.

Loans that are forgiven trigger income taxes. And forgiveness is forgiveness, even when it is triggered by death or disability. If a borrower dies and the debt was solely the borrower's debt, the IRS can't collect the tax. Sure, there may ***technically*** be income, but the IRS doesn't try to collect from a deceased borrower.

But joint or co-signed debt—such as where a parent signs with a child—is different. And it isn't uncommon. The U.S. Department of Education canceled $2.7 billion in student loans in 2011 because borrowers died, became disabled or went bankrupt.

In some cases, the parents of deceased students are on the hook, as where the parents were co-signers. Is this tax and personal nightmare common? Francisco Reynoso, a gardener earning $21,000 annually, was stuck with his son's private student loan debt after he died. Amanda Greenhalgh's death also triggered taxes to her New Jersey family.

There's no question the IRS has a tough and thankless job to do. It's also clear that the IRS didn't write the tax code—Congress did. Nevertheless, this may be a situation where the rules should be changed.

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