

CHANCELLOR'S DOCTORAL INCENTIVE PROGRAM

LOAN FORGIVENESS STATEMENT

Participants in the Chancellor's Doctoral Incentive Program who earn a Ph.D. and subsequently obtain an instructional faculty position at a campus of the California State University become eligible for the loan forgiveness provisions of the Promissory Note.

Neither the Promissory Note nor the Loan Disclosure Statement refers to the U.S. Internal Revenue Service (IRS) provisions that affect loan forgiveness stemming from the program. The CDIP staff is not authorized to provide any advice with regard to income tax matters. Nevertheless, we do want to alert you on how loan forgiveness affect the pay of CSU faculty.

When the CSU forgives a given percentage of a faculty member's loan, the CSU is mandated:

- 1) to report the forgiveness plus forgone interest on the remaining balance, as additional income accruing to the faculty member and,
- 2) to withhold federal income tax (at 25%) and Social Security (6.2%) and Medicare taxes (1.45%) on these amounts.

The net effect of the tax withholding requirements is to reduce the monthly take home pay of CSU full-time faculty by roughly the same order of magnitude as the amount shown on the Loan Disclosure statement as due for regular monthly payments, although typically only for a five-year period rather than the 15-year repayment schedule. The precise impact depends upon individual factors that cannot readily be represented here.

Amounts forgiven through the Chancellor's Doctoral Incentive Program are included in employee's W-2 form.