

Subject Coerced debt income tax subtraction

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Overview

The 2023 Legislature enacted a process by which debtors may petition to discharge a debt, if they prove that they incurred the debt under coercion. Discharges of indebtedness are taxable under federal law, and are included in adjusted gross income, the federal income measure that is the starting point for the state's income tax. H.F. 385 provides an income tax subtraction for debts that are discharged under the state's coerced debt law. The bill also excludes such discharges from the income measure used to calculate the renter's income tax credit and the state homestead credit refund.

Summary

Section	Description
1	Discharges of indebtedness; coerced debt. Allows an income tax subtraction for coerced debts that are discharged. Effective for tax year 2025 and later.
2	Definitions. (Renter's credit) Excludes coerced debts from the income measure used to calculate the renter's income tax credit. Effective for tax year 2025 and later.
3	Income. (Homestead credit refund) Excludes coerced debts from the income measure used to calculate the homestead credit refund. Effective for refunds based on property taxes paid in 2025 and later.



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