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After son's death, woman faces hefty tax bill on his student loans

Dulaney graduate and Temple University student committed suicide last year; his loans were canceled but \$14,000 bill awaits

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Regina Friend, a security administrator in IT at PHH, faces a \$14,000 bill to the IRS on her son's student loans, which were forgiven after his suicide last year. (Amy Davis, Baltimore Sun / May 8, 2012)

By Ian Duncan, The Baltimore Sun 9:07 p.m. EDT, September 18, 2012 After Regina Friend's son Roswell committed suicide last year, she was at least relieved to know that the loans he took out to pay for his Temple University degree were forgiven. But now, the Cockeysville woman has learned she faces a hefty tax bill on those canceled loans.

"I thought I was done," she said. Then in June she spoke to her tax preparer, who told her that she will owe an estimated \$14,000 to the Internal Revenue Service and the state comptroller on the loans she took out for her son.

"I don't think there will ever be closure for what happened. It's something I will have to learn to live with," Friend said. "But it is like throwing salt into a wound."

After Roswell Friend committed suicide in August 2011, the student loans he took out to cover his \$17,000-a-semester bill at the Philadelphia school were discharged, and \$55,400 in Parent Plus loans and interest his mother had accrued on his behalf was also canceled.

But according to IRS rules, loans that are forgiven in the case of death or permanent disability are treated as income. When the borrower dies, the IRS will not seek taxes — as happened with the loans Roswell Friend took out for himself — but when the borrower is a parent, it will.

The U.S. Department of Education reported that it canceled \$2.7 billion in student loans in 2011 when borrowers died, became disabled or went bankrupt. While Regina Friend's situation might not be unusual, it is impossible to tell from the data how many other parents are facing similar tax bills.

"I know it's the IRS' rules, but it just seems cruel," she said. "Nobody needs to be worried about the IRS coming after them just because their child passed away."

Tax preparer Jeffrey Cohen said he had tried to find a way around the expected bill without having to let Friend know about it. Now, they are exploring her options together and seeking outside advice.

"As far as what I intend to do about it, I have no idea," said Friend, who works in IT for PHH Corp. "I don't think I've even seen \$14,000 all at once. I don't want to give the impression that I'm dirt poor or anything, but I do not have any means of taking on that kind of debt."

Cohen applied for an extension until Oct. 15 on Friend's tax return, but in the meantime, the amount is accruing interest and penalties because it was technically due April 17.

The IRS said it does not comment on individual cases.

Mark Kanowitz, the publisher of student finance sites FinAid.org and Fastweb.com, called the situation an "oversight" in the law.

"In a sense you are replacing student loans with a smaller but still sizable tax debt," he said.

While the unexpected bill is daunting, tax lawyers and advisers say Friend has options to make it more manageable.

Gerald W. Kelly, a Columbia tax attorney who worked at the IRS before moving into private practice, said that in the direst cases, if someone can show that they cannot pay the bill at all, the agency will freeze the account and effectively wipe it out after 10 years.

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Under another option, known as offer in compromise, an individual can ask to have a bill reduced. In May, the way these bills are calculated was changed, Kelly said, cutting the likely amount owed.

Kim Frum, a spokeswoman for the Maryland comptroller, said any deal with the IRS would be reflected in what Friend owes to the state.

But Cohen said he wants to avoid striking a deal with the IRS because he does not think Friend should have to pay the bill at all.

Even if the "offer in compromise" process might be an option for Friend, Lyle K. Benson, a financial planner in Towson, said it can be a long process and involves sharing extensive financial information with the IRS.

However it would also give Friend an opportunity to explain her story to the tax collector, Kelly said.

"She can incorporate the tragic circumstances around how she came to owe. That will definitely resonate with the IRS," he said.

Roswell Friend attended Dulaney High School in Baltimore County and initially enrolled at Morgan State. But he was not happy there, so he secretly sent an application to Temple and was accepted.

When he transferred, his mother worried about paying for Temple's costs, but he took loans to cover part of the out-of-state tuition, and she took out more loans to cover the rest.

Roswell Friend was a popular figure on Temple's campus and ran track for the school. He disappeared late on a Thursday night and was last seen on surveillance cameras running onto a bridge. The next Monday morning, police found his body on the New Jersey bank of the Delaware River.

He had finished enough classes to graduate, and in May his mother collected a diploma on his behalf.

For Friend, having to pay a monthly tax bill will be more than just a financial burden.

"That's just going to be every month I have to make a payment that's just one more reminder of my son," she said. "Not that that's necessarily a bad thing — it's just a reminder that he's no longer with us."

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