

Tax Aspects Related to Imputed Income on Zero Current Interest Loans

Tax Aspects of a Zero Current Interest Loan

For borrowers holding a zero current interest loan (currently the DIP, RIP, and ZIP loan programs), the University is deemed, for income tax purposes, to have paid the borrower additional compensation which is then returned to the University as mortgage interest. For borrowers who itemize deductions, these two may offset each other for the calculation of taxable income. This will depend on the total amount of the outstanding principal on acquisition indebtedness (mortgage loan amounts at purchase). Compensation and interest will be imputed on the outstanding loan principal at the Applicable Federal Rate (which is based on U.S. Treasury Bill rates). This deemed compensation will be reported as taxable income each year on Form W-2 and is subject to FICA (Social Security) tax withholding. The income has not had any Federal or State withholdings deducted. The deemed interest will be reported to you on an IRS Form 1098 statement of mortgage interest paid. The interest may not qualify as an itemized deduction due to the cap, resulting in additional income tax due each year.

Some borrowers will qualify for an Employee Relocation Loan if they have recently moved to the Stanford area and can make certain representations. Such loans are described in Section 1.7872-5T of the regulations that interpret the Internal Revenue Code. Employee Relocation Loans have no imputed income or interest.

The tax treatment of zero current interest loans is subject to change and various aspects of these loans raise tax issues that a borrower may wish to discuss with his or her tax adviser.

For reference and comparison purposes, below are the annual rates for the current and past 5 years, along with the imputed interest/income associated with a total mortgage loan balance of \$650,000. To illustrate the estimated tax liability, the amount is calculated using the standard IRS tax brackets.

Calendar Year	IRS Blended Rate	Imputed Interest/Income on \$650K Loan(s)	Estimated Tax Liability at 24%	Estimated Tax Liability at 32%	Estimated Tax Liability at 35%	Estimated Tax Liability at 37%
2019	2.42%	\$15,730	\$3,775	\$5,034	\$5,506	\$5,820
2020	0.89%	\$5,785	\$1,388	\$1,851	\$2,025	\$2,140
2021	0.13%	\$845	\$203	\$270	\$296	\$313
2022	1.40%	\$9,100	\$2,184	\$2,912	\$3,185	\$3,367
2023	4.65%	\$30,225	\$7,254	\$9,672	\$10,579	\$11,183
2024	5.03%	\$32,695	\$7,847	\$10,462	\$11,443	\$12,097