

RAP vs. IBR:

What Physicians and Professionals with Student Loans Need to Know Now

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The New Reality Under OBBBA

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) reshaped student loan repayment.

- New borrowers (after July 1, 2026) will default into the Repayment Assistance Plan (RAP).
- Existing borrowers (before July 2026) can still choose between RAP and Income-Based Repayment (IBR) until July 1, 2028.

💡 Why it matters: For physicians and other professionals carrying six-figure student loans, this shift impacts monthly cash flow, long-term payoff, and future tax bills.

RAP at a Glance

- Payments based on AGI: 1–10% of income, with household adjustments.
- Minimum payment: \$10/month (no \$0 option).
- Built-in subsidy: If your payment doesn't reduce at least \$50 of principal, the government covers the difference and waives unpaid interest.

- Forgiveness: Balance forgiven after 30 years of qualifying payments.
- Covers more loans: Broader eligibility than SAVE or IBR, including Parent PLUS in some cases.

IBR: Still Valuable for Existing Borrowers

- Payments based on discretionary income: 10–15% (AGI minus 150% of poverty line).
- No minimum payment: Can be \$0 if income is low.
- Forgiveness timeline: 20–25 years, depending on when you borrowed.
- Fewer subsidies: But shorter payoff horizon may mean less long-term cost.

The Tax Trap After 2025

- Forgiveness is tax-free only through December 31, 2025 (under ARPA).
- Starting January 1, 2026, all forgiveness under RAP or IBR is treated as taxable income, unless exceptions apply (e.g., PSLF, disability, death).
- Borrowers forgiven in 20–30 years could face phantom tax bills—a surprise liability if not planned for in advance.

✦ CPA Insight: Think of forgiveness as a future taxable distribution—similar to a phantom IRA payout.

Side-by-Side: RAP vs. IBR

Feature	IBR (Existing Borrowers)	RAP (New & Existing Borrowers)
Payment Basis	10–15% of discretionary income	1–10% of AGI

Minimum Payment	Can be \$0	\$10/month minimum
Interest / Principal	No subsidies	\$50 principal credit + waived interest
Forgiveness Timeline	20–25 years	30 years
Forgiveness Tax Status	Taxable after 2025	Taxable after 2025

Real-World Examples

Example 1: Mid-Career Physician

- Balance: \$300,000 | AGI: \$250,000
- IBR: ~\$1,700/month, forgiven after 20 years.
- RAP: ~\$1,800/month, forgiven after 30 years.
- CPA Take: IBR's shorter horizon may win here, but tax modeling is crucial.

Example 2: Resident Physician

- Balance: \$200,000 | AGI: \$60,000
- IBR: ~\$150/month, forgiven after 20 years.
- RAP: ~\$180/month, forgiven after 30 years with subsidy.
- CPA Take: RAP shines by stopping balance growth during training years.

Example 3: Low-Income Borrower

- Balance: \$40,000 | AGI: \$20,000
- IBR: \$0/month, forgiven after 20–25 years.
- RAP: \$10/month, forgiven after 30 years.
- CPA Take: IBR offers short-term relief; RAP prevents balance ballooning.

Planning Tips for Physicians & Professionals

1. Run comparisons now: Existing borrowers should model RAP vs. IBR before July 2028.
2. Account for taxes: Forgiveness is taxable—start building a forgiveness reserve fund.

3. Leverage subsidies: RAP may reduce balances during residency/fellowship years.
4. Integrate with long-term planning: Consider Roth conversions, charitable trusts, or state residency planning to minimize future tax shocks.

👉 Bottom Line:

RAP is the new default, but IBR remains an option for existing borrowers until 2028. The real question isn't just monthly affordability—it's the long-term tax liability of forgiveness. Partnering with a CPA ensures repayment choices align with both career trajectory and tax strategy.



If you're a physician or healthcare professional juggling your finances, you don't have to navigate it alone.

Ready for Strategic Tax Clarity?

Cobalt PacWest Advisors (CPA) specializes in *strategic tax planning, tax compliance, CPA-led comprehensive financial planning, and business advisory services* tailored for physicians, healthcare professionals, high-income families and businesses intent on minimizing taxes to the lowest levels possible while remaining compliant with all tax laws, and plan for their future to achieve what matters most and live their best lives.


Cobalt PacWest Advisors (CPA)

Whether you're navigating the complexities of hospital employment, managing side practice income, optimizing student loans, planning for your family's financial legacy, or growing long-term wealth—our integrated approach combines:

- **Proactive tax strategy**
- **Comprehensive financial planning**
- **Flawless year-end tax preparation**

...to help you align today's financial decisions with tomorrow's goals.

If you are feeling uneasy about the financial decisions you are (or are not) making to increase financial and tax efficiencies and reduce your tax liabilities, and attempts to "guess" what you need to do each year to be able to fund your family's non-negotiable and "wish list" financial goals, plans for achieving financial independence and retiring on your terms aren't providing you the confidence you need, you are not alone.

 Time is money.

Schedule your complimentary consultation today.

Let's chart a smarter path forward—together.

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