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Student Loan Interest Deduction (SLID) Internal Revenue Code 221

What is It?

- The Student Loan Interest Deduction (SLID) is a federal income tax deduction that permits taxpayers with less than \$75,000 in modified adjusted gross income for a single filer or \$155,000 for joint filers to deduct up to \$2,500 in federal student loan interest payments each year. For purposes of SLID, student loan interest is the interest paid during the year on a qualified student loan (this includes both federal and private loans) and includes both required and voluntary interest payments.
- To qualify, a student loan must have been taken out solely to pay for qualified education expenses, such as tuition and fees, room and board, books, supplies, and equipment, and other necessary expenses (such as transportation). The student must also have been enrolled at least half-time in a degree program when the loan was disbursed, and must have paid interest on a qualified student loan during the tax year.
- SLID is taken as an adjustment to income and therefore can be claimed even if a student or parent does not itemize deductions on their tax return.
- The deduction is phased out ratably for taxpayers with adjusted gross incomes between \$60,000 and \$75,000 (between \$125,000 and \$155,000 for joint filers). The income phase-out ranges are indexed for inflation and rounded to the next lowest multiple of \$5,000. The ranges were extended permanently as part of the American Taxpayer Relief Tax Act of 2012.

Why is It Important?

- Over the course of an undergraduate education, many students take out at least one federal student loan. According to the College Board, 34 percent of undergraduates used a federal Stafford loan to finance their education in academic year 2012-13. (College Board, *Trends in Student Aid 2013*).
- According to the most recent analysis of IRS Statistics of Income data (2011), over five million taxpayers benefited from the student loan interest deduction.
- Over the last decade the total number of Stafford Loan borrowers increased by 69%, from 5 million in 2002-03 to almost 10 million in 2012-13. The average amount borrowed from subsidized and unsubsidized Stafford Loans combined increased by 6%, from \$7,900 (in 2012 dollars) to \$8,350 over this decade (College Board).
- Approximately 60% students earning bachelor's degrees in 2011-12 from either public or private nonprofit four-year colleges at which they began their studies graduated with debt. They borrowed and graduated with an average debt of \$26,500 (College Board).
- In 2012, 40% of borrowers with education debt owed less than \$10,000 and another 30% owed between \$10,000 and \$25,000; 4% of borrowers owed \$100,000 or more. This debt includes funds borrowed for both undergraduate and graduate studies (College Board).

Boston University
Brandeis University
Brown University
California Institute of Technology
Carnegie Mellon University
Case Western Reserve University
Columbia University
Cornell University
Duke University
Emory University
Georgia Institute of Technology
Harvard University
Indiana University
Iowa State University
The Johns Hopkins University
Massachusetts Institute of Technology
McGill University
Michigan State University
New York University
Northwestern University
The Ohio State University
The Pennsylvania State University
Princeton University
Purdue University
Rice University
Rutgers, The State University of New Jersey
Stanford University
Stony Brook University - State University
of New York
Texas A&M University
Tulane University
The University of Arizona
University at Buffalo, The State University
of New York
University of California, Berkeley
University of California, Davis
University of California, Irvine
University of California, Los Angeles
University of California, San Diego
University of California, Santa Barbara
The University of Chicago
University of Colorado at Boulder
University of Florida
University of Illinois at Urbana-Champaign
The University of Iowa
The University of Kansas
University of Maryland, College Park
University of Michigan
University of Minnesota, Twin Cities
University of Missouri-Columbia
The University of North Carolina
at Chapel Hill
University of Oregon
University of Pennsylvania
University of Pittsburgh
University of Rochester
University of Southern California
The University of Texas at Austin
University of Toronto
University of Virginia
University of Washington
The University of Wisconsin-Madison
Vanderbilt University
Washington University in St. Louis
Yale University

- Total education borrowing fell by 6% in real terms between 2011-12 and 2012-13. Total federal student and parent loans plus nonfederal loans had declined by 2% between 2010-11 and 2011-12 (College Board).
- The Budget Control Act of 2011 eliminated the in-school interest subsidy on Stafford Loans for graduate students, effective July 1, 2012.
- Managing student loan debt after graduation can be a significant hardship. It can affect career choices, especially for individuals in entry-level positions or who work in the public or nonprofit sectors. By reducing such individuals' taxable income, SLID gives a much-needed break to individuals paying back student loans.
- SLID, in effect, lowers a borrower's interest rate by his or her marginal tax rate and therefore acts like an interest rate cut.

Additional Information

- Joint Committee on Taxation Report, JCX-62-12, "Present Law and Background Relating to Tax Exemptions and Incentives for Higher Education" – www.jct.gov/publications.html?func=startdown&id=4474.
- IRS Publication 970, Tax Benefits for Education – www.irs.gov/pub/irs-pdf/p970.pdf.
- Trends in Student Aid, The College Board – trends.collegeboard.org/student-aid