



# Student Loan Interest Deduction (SLID)

Internal Revenue Code 221

## What is the Student Loan Interest Deduction?

The Student Loan Interest Deduction (SLID) is a federal income tax deduction that permits taxpayers with less than \$80,000 in modified adjusted gross income for a single filer or \$160,000 for joint filers to deduct up to \$2,500 (a cap that has been in place since 1997) 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 voluntarily pre-paid 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 – in other words, it is “above-the-line” – and therefore can be claimed even if a student or parent does not itemize deductions on their tax return.

SLID, in effect, lowers a borrower’s interest rate by his or her marginal tax rate and therefore acts like an interest rate cut.

The deduction is phased out ratably for taxpayers with adjusted gross incomes between \$65,000 and

\$80,000 (between \$130,000 and \$160,000 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?

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.

***In 2015, 38 percent of borrowers with education debt owed less than \$10,000 and another 23 percent owed between \$10,000 and \$20,000; only 5 percent of borrowers owed \$100,000 or more. This debt includes funds borrowed for undergraduate and/or graduate studies.***

Source: College Board, Trends in Student Aid 2016

There are approximately 20 million students currently enrolled in public and private nonprofit colleges and universities in the United States, with approximately 12 million (60 percent) taking out student loans to pay for college (College Board, Trends in Student Aid 2016).

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continued

SLID is “above-the-line,” which means that nonitemizers – particularly low- and middle-income taxpayers – can take advantage of it. Any individual with income up to \$80,000 (or \$160,000 on a joint return) repaying student loans can deduct up to \$2,500 in student loan interest paid.

***31 percent of undergraduates and  
38 percent of graduate students  
used a federal Direct Loan to finance  
their education in academic year  
2015-16.***

Source: College Board, *Trends in Student Aid 2016*

SLID works well for all borrowers, whether they are repaying loans for undergraduate and/or graduate studies.

SLID, combined with other federal education tax credits and deductions, helps more students than subsidized and unsubsidized Direct Loans combined, and almost double the number of students as Pell Grants (College Board).

## [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](http://www.jct.gov/publications.html?func=startdown&id=4474)

### **IRS Publication 970**

Tax Benefits for Education

[www.irs.gov/pub/irs-pdf/p970.pdf](http://www.irs.gov/pub/irs-pdf/p970.pdf)

### **IRS Publication 1304**

Individual Complete Report, Table 1.4

[https://www.irs.gov/uac/soi-tax-stats-individual-  
statistical-tables-by-size-of-adjusted-gross-income](https://www.irs.gov/uac/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income)

### **College Board Report**

"Trends in Student Aid 2016"

[https://trends.collegeboard.org/sites/default/  
files/2016-trends-student-aid.pdf](https://trends.collegeboard.org/sites/default/files/2016-trends-student-aid.pdf)

### **GAO Study**

"Improved Tax Information Could Help Families Pay for College"

<http://www.gao.gov/assets/600/590970.pdf>