

Student Loan Interest Deduction

Parents and students who paid interest on qualified education loans and who meet the income qualifications may be able to use this deduction.

Eligible loans

A qualified education loan is a loan that must have been used to pay the costs of attendance at an eligible educational institution for a student enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

Eligible loans include:

- Federal Stafford Loans
- Federal PLUS Loans
- Federal and Direct Consolidation Loans
- Federal Perkins Loans
- Loans issued under the federal loan programs for health care professionals
- Loans issued by banks and other private lenders that are designated as being used for qualified educational purposes
- Loans issued to the student or parent by schools

How to qualify

To qualify for the Student Loan Interest Deduction, a taxpayer must have a modified adjusted gross income of \$65,000 or less (\$130,000 for married taxpayers filing jointly).

- Taxpayers with adjusted gross income above these thresholds would not be entitled to a deduction.
- The Student Loan Interest Deduction is available for interest payments due and made on or after January 1, 1998.
- A dependent student may not claim the interest deduction for student loan interest. Once the student is independent he or she may take the interest deduction.
- The maximum deduction each taxpayer is permitted to take is \$2,500.

A taxpayer does not have to itemize deductions to claim the Student Loan Interest Deduction. The Student Loan

Interest Deduction is available regardless of whether an individual elects to take the standard deduction or to itemize deductions. Instructions accompanying tax forms will explain how to compute and claim the deduction.

Taxpayers are not eligible to claim the interest deduction and a Hope Scholarship or Lifetime Learning Credit in the same year with respect to the same student.

Where should I call if I have more questions?

Call the IRS information line at:

1-800-829-1040

or try their website at:

www.irs.gov

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Tax Benefits Guide

FOR EDUCATION EXPENSES



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Special tax benefits could save you money



Deduction for Higher Learning
Hope Scholarship Credit
Lifetime Learning Credit
Student Loan Interest Deduction

Deduction for Higher Learning

You may be able to deduct qualified tuition and related expenses paid during the year for yourself, your spouse, or a dependent, even if you do not itemize deductions on Schedule A, Form 1040.

For 2004 and 2005, the maximum deduction is \$4,000 of qualified tuition and related expense. This deduction is an adjustment to income. If your modified adjusted gross income (MAGI) is not more than \$65,000 (\$130,000 on a joint return) you may be able to deduct up to the maximum of \$4,000. If your MAGI is larger than \$65,000 (\$130,000 if you are married filing jointly), but is not more than \$80,000 (\$160,000 if you are married filing jointly), your maximum tuition and fees deduction is \$2,000. No tuition and fees deduction is allowed if your MAGI is larger than \$80,000 (\$160,000 on a joint return).

You cannot deduct any amount for qualified tuition and related expenses for a year if:

- A Hope Scholarship Credit or Lifetime Learning Credit is claimed with respect to expenses of the individual for whom the tuition and related expenses were paid.
- Or
- You can deduct the expense under any other provision of the law.

Hope Scholarship Credit

The Hope Scholarship Credit is a tax credit available only for the first two years of college or post-secondary education. The amount of the Hope Scholarship Credit is \$1,500 per year for the first two years of college. It applies to each eligible student's qualified tuition and related expenses. An individual paying qualified tuition and related expenses at a post-secondary educational institution may claim the credit, provided the student, whose expenses are being paid, and the institution both meet certain eligibility requirements.

- The student must be enrolled in a program that leads to a degree, certificate, or other recognized educational credential.
- The student must be attending school at least half-time in a course of study for at least one academic period beginning during the calendar year.
- The deduction is phased out if modified adjusted gross income is between \$42,000 and \$52,000 for individual and \$85,000 and \$105,000 for joint filers. Hope Scholarship Credit is eliminated for incomes in excess of \$52,000 for individual and \$105,000 for joint filers.

Lifetime Learning Credit

The Lifetime Learning Credit is targeted to college juniors and seniors, graduate and professional degree students and adults who want to return to school to update their skills or change careers.

- The tax credit is equal to 20% of the first \$10,000 of total annual education expenses, up to \$2,000 annually.
- Unlike the Hope Scholarship Credit, the Lifetime Learning Credit does not require students to be in their first two years of post-secondary study and does not require at least half-time enrollment.
- An individual paying qualified tuition and related expenses at a post-secondary educational institution may claim the credit, provided the institution is an eligible educational institution.
- Only out-of-pocket expenses can be considered. Qualified expenses that are paid with the Federal Pell Grant or other tax-free scholarships, tax-free Education IRA or tax-free employer-provided education assistance cannot be used in calculating this tax credit. During the same year, a student's expenses cannot be claimed for both the Hope Scholarship Credit and the Lifetime Learning Credit.
- There is no limit to the number of years for which the Lifetime Learning Credit may be claimed for any student.
- The deduction is phased out if modified adjusted gross income is between \$42,000 and \$52,000 for individual and \$85,000 and \$105,000 for joint filers. Lifetime Learning Credit is eliminated for incomes in excess of \$52,000 for individual and \$105,000 for joint filers.