There's a deduction for student loan interest … but do you qualify for it?

If you're paying back college loans for yourself or your children, you may wonder if you can deduct the interest you pay on the loans. The answer is yes, subject to certain limits. The maximum amount of student loan interest you can deduct each year is $2,500. Unfortunately, the deduction is phased out if your adjusted gross income (AGI) exceeds certain levels, and as explained below, the levels aren't very high.

The interest must be for a "qualified education loan," which means a debt incurred to pay tuition, room and board, and related expenses to attend a post-high school educational institution, including certain vocational schools. Certain postgraduate programs also qualify. Therefore, an internship or residency program leading to a degree or certificate awarded by an institution of higher education, hospital or health care facility offering postgraduate training can qualify.

It doesn't matter when the loan was taken out or whether interest payments made in earlier years on the loan were deductible or not.

Phase-out amounts

For 2021, the deduction is phased out for taxpayers who are married filing jointly with AGI between $140,000 and $170,000 ($70,000 and $85,000 for single filers). Thus, the deduction is unavailable for taxpayers with AGI of $170,000 ($85,000 for single filers) or more.

For 2022, the deduction will be phased out for taxpayers who are married filing jointly with AGI between $145,000 and $175,000 ($70,000 and $85,000 for single filers). That means the deduction is unavailable for taxpayers with AGI of $175,000 ($85,000 for single filers) or more.

Married taxpayers must file jointly to claim this deduction.

No deduction is allowed to a taxpayer who can be claimed as a dependent on another's return. For example, let's say parents are paying for the college education of a child whom the parents are claiming as a dependent on their tax return. The interest deduction is only available for interest the parent pays on a qualifying loan, not for any interest the child-student may pay on a loan he or she may have taken out. The child will be able to deduct interest that is paid in a later year when he or she is no longer a dependent.

The deduction is taken “above the line.” In other words, it’s subtracted from gross income to determine AGI. Thus, it’s available even to taxpayers who don’t itemize deductions.

Other requirements

The interest must be on funds borrowed to cover qualified education costs of the taxpayer or his or her spouse or dependent. The student must be a degree candidate carrying at least half the normal full-time workload. Also, the education expenses must be paid or incurred within a reasonable time before or after the loan is taken out.

Taxpayers should keep records to verify qualifying expenditures. Documenting a tuition expense isn’t likely to pose a problem. However, care should be taken to document other qualifying education-related expenditures such as for books, equipment, fees and transportation.

Documenting room and board expenses should be straightforward for students living and dining on campus. Students who live off campus should maintain records of room and board expenses, especially when there are complicating factors such as roommates.