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Jul. 21, 2016



Two-thirds of students graduating college in Illinois in 2016 are carrying student loan debt, averaging close to \$30k and typically carrying interest at 6.8 percent, or a little over \$2k per year.

The good news is, student loan interest up to \$2.5k per year is an “above the line” deduction on your federal income tax return, meaning you do not have to itemize

deductions to claim it. And if you do itemize, the deduction reduces your adjusted

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The bad news is, if you are paying more than \$2.5k per year in student loan interest, the excess is not deductible and cannot be carried forward. Also, if you are making more than \$65k per year, the deduction begins to phase out, and if you are making \$80k per year, the deduction disappears altogether.

Again if you are entirely typical, you will almost certainly be married by the time you are thirty. And here the good news is, if you are filing joint returns you will still be in the 25 percent marginal rate bracket until your combined incomes hit \$151.9k, and the range over which the deduction phases out is doubled, starting at \$130k and zeroing out at \$160k.

The bad news is, the cap on the student loan interest deduction is still only \$2.5k. So if you are both carrying student loans and paying in the aggregate more than \$2.5k per year in interest, again the excess is not deductible and cannot be carried forward.

You cannot work around this problem by filing separately, because the federal tax Code says you cannot take the deduction on a separate return. Some commenters have suggested, almost in jest, that this would be a good reason to delay getting married.

On the other hand, if you are trying to qualify for an income-based student loan repayment plan, you may want to consider filing separately, especially if your spouse does not also have student loan debt, so his or her income will not be taken into account in setting the repayment rate.

At Klein Hall CPAs, a Naperville and Aurora accounting firm, we stand ready to help you work through these complexities to reach the optimal result. Please contact us for an appointment.

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