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DEDUCTION FOR STUDENT LOAN INTEREST

You can deduct the interest you pay on your college loans subject to certain limits. This deduction is a departure from the general rule that interest on "personal" loans isn't deductible (except, in most cases, for mortgage interest on your home). Here are the requirements for deductibility: The maximum amount of interest you can deduct each year is $2,500. The maximum isn't adjusted for inflation. However, the deduction is phased out if your adjusted gross income (AGI) exceeds certain levels.

- The interest must be for a "qualified education loan," i.e., for 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 post-graduate programs also qualify. Thus, an internship or residency program leading to a degree or certificate awarded by an institution of higher education, hospital, or health care facility offering post-graduate 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.

- The student loan interest deduction is phased out for taxpayers who are married filing jointly with AGI between $100,000 and $130,000 (between $50,000 and $65,000 for single filers). The deduction will be unavailable for taxpayers with AGI of $130,000 ($65,000 for single filers). These limits will increase for inflation after 2002.

- Married taxpayers must file jointly or no deduction is allowed. No deduction is allowed to a taxpayer who can be claimed as a dependent on another's return. For example, in the typical situation where a parent is paying for the college education of a child whom the parent is claiming as a dependent on the parent's return, the interest deduction is only available for interest the parent pays on a qualifying loan, not to any interest the child/student may pay on a loan the student may have taken out. (The child could claim the deduction later, when he or she is no longer a dependent.)

- Where a deduction is allowed, it's taken "above the line," i.e, it's subtracted from gross income to determine AGI. Thus, it's available even to taxpayers who don't itemize deductions.

- The interest must be on funds borrowed to cover qualified education costs of the taxpayer, his spouse or dependent. The expenses must be for education furnished while the recipient was an "eligible student," i.e., at least a half-time student. Also, the education expenses must be paid or incurred within a reasonable time before or after the loan is taken out. Taxpayers must keep records to verify qualifying expenditures. Documenting a tuition expense isn't likely to pose a problem, but care should be taken to document other qualifying expenditures such as for books, equipment, fees and other education-related costs such as transportation. Documenting the costs of room and board should be straightforward for the most part for students living and dining on campus. But where the student lives off campus, records on the costs of room and board should be maintained, especially when there are complicating factors such a roommates involved.

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provide accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at info@facpa.com.