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STUDENT LOAN INTEREST DEDUCTION (Code Sec. 221)

The student loan interest deduction is a deduction for interest paid during the fiscal year on a qualified student loan.

The student loan interest deduction is taken as an adjustment to income, which means that you can claim this deduction even if you do not itemize your deductions on your 1040 (*i.e.* you take the standard deduction).

Prior to 1998, no deduction for student loan interest was allowed.

From 1998-2001, only interest paid during the first 60 months in which interest payments were required could be deducted. During this period, the deduction for student loan interest was capped (\$1,000 in 1998, \$1,500 in 1999, \$2,000 in 2000 and \$2,500 in 2001) and subject to phaseout based on income limitations.

Beginning in 2002, all interest, including both required and voluntary, paid on a student loan during the year could be deducted. The deduction, however, remained capped (\$2,500) and subject to phaseout based on income limitations.

Currently, the cap remains at \$2,500 and the phaseout generally works like this:

1. If your filing status is single, head of household or qualifying widow(er) and your adjusted gross income ("AGI") is not more than \$50,000, your student loan interest deduction is not affected by the phaseout.
2. If your filing status is single, head of household or qualifying widow(er) and your AGI is more than \$50,000 but less than \$65,000, your student loan interest deduction is reduced by the phaseout.
3. If your filing status is single, head of household or qualifying widow(er) and your AGI is more than \$65,000, your student loan interest deduction is eliminated by the phaseout.
4. If your filing status is married filing joint return and your AGI is not more than \$100,000, your student loan interest deduction is not affected by the phaseout.
5. If your filing status is married filing joint return and your AGI is more than \$100,000 but less than \$130,000, your student loan interest deduction is reduced by the phaseout.
6. If your filing status is married filing joint return and your AGI is more than \$130,000, your student loan interest deduction is eliminated by the phaseout.

* If your AGI is within the range of incomes where the credit must be reduced, the reduction is calculated by multiplying the maximum interest deduction before phaseout (\$2,500) by a fraction – the numerator is your AGI - \$50,000 (\$100,000 in the case of a joint return) and the denominator is \$15,000 (\$30,000 in the case of a joint return).

Example:

During 2003 you paid \$2,750 in student loan interest. Your 2003 AGI is \$125,000 and you are filing a joint return. You must reduce your deduction by \$2,083.

$$\$2,500 \times (125,000 - 100,000 / 30,000) = 2,083$$

Your student loan interest deduction for 2003 is \$417 (2,500 - 2,083)



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News

Treasurer Lemoine Joins Governor Baldacci, Representative Tim Driscoll and Representative Ed Finch in Highlighting New Maine Tax Breaks on Student Loans and More Funding for Higher Education in Maine

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Treasurer Lemoine Joins Governor Baldacci, Representative Tim Driscoll and Representative Ed Finch in Highlighting New Maine Tax Breaks on Student Loans and More Funding for Higher Education in Maine

AUGUSTA – Treasurer Lemoine joined Governor John E. Baldacci, Rep. Tim Driscoll, D-Westbrook, and Rep. Ed Finch, D-Fairfield to outline recent changes making it easier to save for and pay for college. Their press conference was held at the University of Maine, Augusta campus earlier today, just three days before the federal interest rate on student loans is set to jump from around 3 percent to more than 8 percent for many students. "As the Governor has repeatedly pointed out, the jobs of the future require education today," said David Lemoine, who sits on the board of the Finance Authority of Maine, and is chair of the NextGen investment advisory committee. "He and the legislature have stepped up to the plate repeatedly over the last two years to make that happen even in the face of serious budget constraints." Governor Baldacci pointed out that July 1 is coming soon and "while that normally means that we're excited about the bulk of the beautiful Maine summer that is still ahead of us, this year it's a little more stressful for college students and their families." Governor Baldacci continued, "It's a bad day for students trying to save for college because they know that federal changes are going to take effect on that day, changes that are going to result in making it more difficult financially for higher educational opportunities." The Governor highlighted three initiatives to help students that will begin in the fiscal year

starting July 1. The first initiative is a new state tax deduction for contributions to Section 529 College Savings programs (such as Maine's NextGen plan). These breaks were implemented as part of the Supplemental Budget passed by the Legislature in March and will save Maine families almost \$300,000 during the second half of the fiscal year (the tax deduction goes into effect Jan. 1, 2007) and nearly double that in the following fiscal year. Individuals earning less than \$100,000 and families earning up to \$200,000 that save for college using a 529 plan, such as NextGen, will be eligible for a \$250 deduction on their taxes. Maine is the first state in the nation to offer such a deduction, even on 529 plans that are based out of state. This is an important first step and we hope to increase the deduction in future years. "Up until last month, no other state in the nation offered this," Representative Driscoll said. "It allows Mainers to enhance their options with respect to investments they want to make... That, along with the interest income savings, and the increased revenue to the university system to help keep tuition costs down, I think as a package, it's a great win for families and students in Maine." **In addition, the supplemental budget passed in March also extends the tax deduction on student loan interest from five years to the full life of the loan. That conforms with the federal tax deduction on student loan interest and will save Maine students and their families \$489,000 in the coming year. The provision goes into effect on Jan. 1, 2007, half way through the fiscal year, meaning savings the following year will be roughly double.** Kari Leighton, a traditional student at University of Maine - Augusta, spoke at the press conference about the need for programs like these to help students save for and pay for college. "I do want to thank everybody for doing what they're doing because it's time that we do help students and it's time that they have the opportunities that everybody should have," Leighton said. The third and final initiative outlined by the Governor was the \$5.8 million in additional funding for higher education, passed by the Legislature in the final days of the recently-ended session. While the money is not earmarked for any specific purpose, its intent was to slow down projected tuition increases at the University of Maine and Maine Community College systems, and is having that effect. Of that amount, \$1.6 million went to the community colleges, and \$4.2 million to the university system.

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[PDF](#), [Word \(RTF\)](#)**Chapter 805: COMPUTATION OF TAXABLE INCOME OF
RESIDENT INDIVIDUALS**Download Section 5122
[PDF](#), [Word \(RTF\)](#)**§5122. Modifications**[Statute Search](#)[List of Titles](#)[Maine Law](#)[Disclaimer](#)[Revisor's Office](#)[Maine Legislature](#)**1. Additions.** Federal adjusted gross income shall be increased by:

A. Interest or dividends on obligations or securities of any state other than this State, or of a political subdivision or authority of any state other than this State, to the extent that interest or those dividends are not included in the recipient's federal adjusted gross income; [2003, c. 390, §27 (amd).]

B. Interest or dividends on obligations of any authority, commission, instrumentality, territory or possession of the United States which by the laws of the United States are exempt from federal income tax but not from state income tax; [1981, c. 706, §33 (amd).]

C. [1987, c. 504, §9 (rp).]

D. For income tax years beginning before January 1, 2002, the amount of any net operating loss in the taxable year that has been carried back to previous years pursuant to the Code, Section 172; [2003, c. 390, §28 (amd); §53 (aff).]

E. The amount of any deduction claimed for the taxable year under the United States Internal Revenue Code, Section 172 which has previously been used to offset the modifications provided by this subsection; [1987, c. 739, §§44, 48 (amd).]

F. [2001, c. 583, §15 (rp).]

G. Pick-up contributions paid by the taxpayer's employer on the taxpayer's behalf to the Maine State Retirement System as defined in Title 5, section 17001, subsection 28-A; [1997, c. 557, Pt. B, §4 (amd); Pt. G, §1 (aff).]

H. The absolute value of the amount of any net operating loss arising from tax years beginning on or after January 1, 1989, but before January 1, 1993, that arises from an S corporation with total assets for the year of at least \$1,000,000 and the absolute value of the amount of any net operating loss arising from tax years beginning on or after January 1, 2002 that, pursuant to the United States Internal Revenue Code, Section 172, are being carried back for federal income tax purposes to the taxable year by the taxpayer; [2001, c. 559, Pt. J, §1 (amd).]

[2005, c. 218, §51 (amd).]

O. The amount of the contribution to a qualified scholarship organization that is included in the credit base of the educational attainment investment tax credit under section 5219-U to the extent that the contribution has been used to adjust federal adjusted gross income; [2003, c. 20, Pt. II, §1 (amd).]

P. The amount of the loan repayment included in the credit base of the recruitment credit under section 5219-V to the extent that the repayment has been used to adjust federal adjusted gross income; [2003, c. 20, Pt. II, §1 (amd).]

Q. For tax years beginning on or after January 1, 2003, the amount of deduction claimed pursuant to the Code, Section 222 for qualified tuition and related expenses; [2003, c. 20, Pt. II, §2 (new).]

R. [2003, c. 451, Pt. KK, §1 (rp).]

S. For tax years beginning in 2003, 2004 and 2005, the amount received from the National Health Service Corps Scholarship Program and the Armed Forces Health Professions Scholarship and Financial Assistance program to the extent excluded from federal gross income in accordance with the Code, Section 117; [RR 2003, c. 2, §117 (cor).]

T. [2003, c. 688, Pt. A, §41 (rp).]

U. [2003, c. 688, Pt. A, §41 (rp).]

V. For tax years beginning on or after January 1, 2003 and before January 1, 2007, the amount claimed as a federal income adjustment for student loan interest under the Code, Section 62 (a)(17), but only for interest paid after 60 months from the start of the loan repayment period; [2005, c. 12, Pt. L, §1 (amd).]

W. For tax years beginning on or after January 1, 2004, for an eligible individual as defined by the Code, Section 223 (c)(1), the amount of contributions to the eligible individual's health savings account under the Code, Sections 106 and 223 to the extent that those contributions, exclusive of rollovers, for the taxable year are not included in the eligible individual's federal adjusted gross income; and [2005, c. 12, Pt. P, §3 (amd).]

X. An amount equal to the taxpayer's federal deduction relating to income attributable to domestic production activities claimed in accordance with Section 102 of the federal American Jobs Creation Act of 2004, Public Law 108-357. [2005, c. 12, Pt. P, §4