

TAX REFORM AND HIGHER EDUCATION

What Students, Families, and Institutions Need to Know

Talking Points: Student Loan Interest Deduction & Tax Exclusion of Discharge of Student Loan Debt

Background

- There are approximately 20 million students currently enrolled in public and private nonprofit colleges and universities in the United States, with approximately 12 million (60 percent) taking out student loans to pay for college.¹
- In 2015, 38 percent of borrowers with education debt owed less than \$10,000 and another 23 percent owed between \$10,000 and \$20,000; only 5 percent of borrowers owed \$100,000 or more. This debt includes funds borrowed for undergraduate and/or graduate studies.

Student Loan Interest Deduction (SLID)

- We strongly support improving SLID and expanding its use by making the full amount of interest deductible and increasing the income caps to allow for greater participation.
- Managing student loan debt after graduation can be a significant hardship. It can affect career choices, especially for individuals in entry-level positions or those who work in the public or nonprofit sectors. By reducing taxable income, SLID gives a much-needed break to individuals who are working hard to pay back their student loans.
- SLID is “above-the-line,” which means that nonitemizers—particularly low- and middle-income taxpayers—can take advantage of it. Any individual with income up to \$80,000 (or \$160,000 on a joint return) repaying student loans can deduct up to \$2,500 in student loan interest paid.
- SLID works well for all borrowers, whether they are repaying loans for undergraduate and/or graduate studies.
- In 2014, 12 million taxpayers benefitted from SLID (7 million more than in 2011).
- The full amount of student loan interest should be deductible instead of capped at \$2,500. At the very least, the \$2,500 interest limit—which has been in place since 1997—should be increased to \$5,000 for individuals and \$10,000 for joint filers.
- Applicable income caps should be increased to the current level of AOTC eligibility.

Tax Exclusion of Student Loan Debt

- We strongly support policies to exclude the discharge of remaining student loan debt from taxation under the array of federal student loan forgiveness programs.
- Currently, the tax code applies a tax exclusion to several federal and state loan forgiveness programs, including Public Service Loan Forgiveness (PSLF) for borrowers working in

¹ Data used for these talking points is drawn from: https://trends.collegeboard.org/sites/default/files/2016-trends-student-aid_0.pdf

government and certain nonprofit jobs, TEACH to assist future teachers, and the National Health Services Corps Loan Repayment Program, which helps medical health professionals working in underserved areas of the country. Each of these programs permits former students with high student loan debt to more easily manage their debt and avoid default in exchange for working, likely for lower salaries, in ways that help serve our society.

- At a time when more students are borrowing more money for college, it would be sound public policy not only to maintain, but also to expand the tax exclusion for discharge of student loan debt to the entire array of federal student loan forgiveness programs as part of the federal effort to enhance college access and affordability.
- Indeed, this tax exclusion should be extended to two other federal loan forgiveness programs, the Income-Based Repayment (IBR) and Income Contingent Repayment (ICR), to which it does not currently apply.