



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

October 23, 2013

TO: . Representative Cory Mason  
Room 6 North, State Capitol

FROM: Rick Olin, Fiscal Analyst

SUBJECT: Proposed Income Tax Deduction for Amounts Paid on Student Loans

At your request, I am providing examples of the amount of tax savings that would be realized by hypothetical taxpayers under a proposal to create an individual income tax deduction for student loan repayments, which is included in LRB 3311/P2.

Under current law, an income tax deduction is allowed for tuition expenses. The deduction applies to tuition and mandatory student fees paid on behalf of the taxpayer or the taxpayer's dependent. Allowable tuition expenses include tuition paid to attend any university, college, technical college, or a school approved by the Education Approval Board that is located in Wisconsin or to attend a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin tuition reciprocity agreement.

The maximum deduction equals twice the average amount of resident undergraduate tuition charged by UW System four-year institutions for the most recent fall semester. Therefore, the maximum deduction changes annually in response to tuition changes. For tax year 2013, the maximum deduction per eligible student per year is \$6,943. This exclusion may not be claimed if the source of the tuition payment is a withdrawal from a Wisconsin state-sponsored college savings program or college tuition and expenses program, such as EdVest, provided the contribution to the account was previously claimed as an exclusion to taxable income.

The maximum deduction is phased out in specified ranges of federal AGI that vary with filing status. The phase-out ranges are as follows: (a) \$50,000 to \$60,000 for single and head-of-household filers; (b) \$80,000 to \$100,000 for married couples filing joint returns; and (c) \$40,000 to \$50,000 for married couples filing separate returns.

Among other provisions, LRB 3311/P2 would expand the current income tax deduction for higher education expenses to include amounts paid on loans, the proceeds of which were used by the claimant to pay the claimant's expenses for tuition, fees, books, room and board, and

educational supplies that were directly related to the claimant's attendance at a regionally accredited, nonprofit, postsecondary educational institution. Beginning in tax year 2014, the bill draft would also eliminate the current phase-out provisions that apply to the deduction for higher education tuition expenses.

The following table provides estimates of the tax savings that would result for single and married joint filers. For each type of filer, four different income levels and three different loan amounts are assumed. Each loan repayment is based on a ten-year amortization and 5% interest rate. Finally, savings are estimated for married joint filers where each member of the couple has an outstanding loan. LRB 3311/P2 would allow a taxpayer and spouse to each deduct up to \$6,943 in repayment amounts. A number of assumptions were employed such as eligibility for certain tax credits and the division of two-earner income. Different assumptions would produce different amounts of tax savings. Although the deduction would not take effect until tax year 2014, some details for 2014 tax calculations are unknown at this time. Therefore, the following calculations are for tax year 2013.

**Estimated Income tax Savings Under Proposal to Allow Deduction  
for Student Loan Repayments (LRB 3311/P2)**

Loan Amount	\$10,000	\$20,000	\$54,550
Annual Payment	1,273	2,546	6,943
	Tax Savings		
<b>Single Filers</b>			
- \$20,000 Income	-\$62	-\$125	-\$262
- \$50,000 Income	-90	-179	-488
- \$100,000 Income	-80	-160	-466
- Top Tax Bracket	-97	-195	-531
<b>Married Joint Filers (One Loan)</b>			
- \$40,000 Income	-\$89	-\$178	-\$486
- \$80,000 Income	-96	-192	-522
- \$150,000 Income	-80	-160	-436
- Top Tax Bracket	-97	-195	-531
<b>Married Joint Filers (Two Loans)</b>			
- \$40,000 Income	-\$178	-\$357	-\$454
- \$80,000 Income	-192	-383	-1,043
- \$150,000 Income	-160	-320	-871
- Top Tax Bracket	-195	-389	-1,062

If you have any questions on this information, please let me know.

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