

Tax Tip

Week of April 27, 2009

Refinancing Student Loans

If individuals pay interest on a student loan, they are allowed to claim a credit on their tax return. However, this credit can be lost if the former student consolidates his or her student loan with other loans to take advantage of lower interest rates. For example, if an individual renegotiates the student loan with a bank or similar financial institution, or includes the debt with an arrangement to consolidate other loans, the interest on the new loan does not qualify for the tax credit for interest paid on student loans.

Although it would make economic sense to refinance a loan with a lower interest rate, the cost of losing the tax credit should be factored into the decision.