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GUIDE TO TAX SEASON

HEY YOU — YEAH, YOU, the one hiding from the thought of tax season. Come out — hiding from your taxes isn't going to make them go away. In fact, you can make it easier on yourself simply by reading about the various forms, processes and ways to save money this tax season (yes, we did just say save money).

If you have student loans or are a student, this guide will cover some important things you need to know before you tackle your taxes. We'll walk you through education-related tax deductions and tax credits, and help you navigate various pitfalls. For instance, did you know that the student loan interest deduction allows you to reduce your taxable income by up to $2,500? By deducting the interest paid on a qualified student loan that you took out to pay for qualified education expenses — yours, your spouse's, or a person who was your dependent when you took out the loan — you could **save up to $625**.

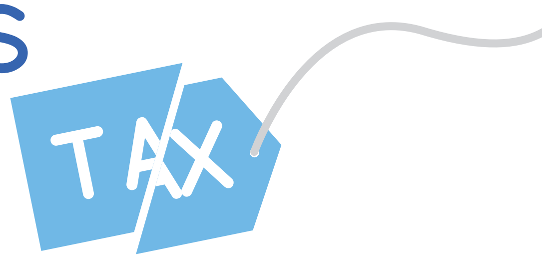
Whereas deductions reduce the amount of your income that is subject to tax (which may help reduce the amount of taxes you pay), tax credits directly reduce the amount of income tax you have to pay. Education credits -- like the American Opportunity Tax Credit and the Lifetime Learning Credit -- can reduce the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may even get a refund.

Nobody should pay more in taxes than they have to — but saving money is especially important for those coping with student loan debt. Student loan borrowers should consider income-driven repayment plans to lower their monthly loan payments, know how to evaluate the pros and cons of 529 college savings plans, and remember to watch out for taxes on forgiven student debt.

Credible's tax guide will cover these topics and also provide you with important information about deadlines to watch out for, where to go when you need help, and tax strategies.

LET'S DIVE RIGHT IN.

TAX DEDUCTIONS



STUDENT LOAN INTEREST DEDUCTION

What is it?

The **student loan interest deduction** can help you to reduce the amount of your taxable income.

A $2,500 deduction does not mean that you will get that much back from the government. A deduction simply means that you could lower your taxable income. So if you qualify to deduct $2,500 and you have a marginal tax rate of 25 percent, you would pay $625 less in taxes. But keep in mind that this is the best case scenario — if your tax rate is 15 percent, for example, you would only save $375. You can **claim this deduction** if you've refinanced your loans, and if you're the parent of a dependent child who took out the loan.

The student loan interest deduction is a nice perk. But if you're paying a lot of interest on your student loans, you may be able to save more than $625 a year by refinancing your loans at a lower interest rate with a private lender. In most cases, you'll still be able to claim the student loan interest deduction, but you'll be paying less interest. Borrowers refinancing their loans with vetted lenders through the Credible.com platform save $11,668 on average. It takes just two minutes to **find out how much you might save**.

Eligibility

- You're eligible to claim the student loan interest deduction if:
- You paid interest on a student loan during the 2015 tax year
- The student loan is in your name
- You were enrolled at least half-time in a degree program when you took out the loan
- You're filing as a single taxpayer or as "married filing jointly"
- You have a modified adjusted gross income (MAGI) of less than $80,000 as a single taxpayer or $160,000 if you are filing jointly
- Nobody else is claiming you as a dependent on their tax return

Caveats

If you're married, there's a caveat -- there' s no double dipping allowed. If you and your spouse would otherwise be eligible to claim a $2,500 deduction, you can't both claim a deduction totaling $5,000. Whether you're married or not, you can only claim a single deduction, totaling a maximum of $2,500.

The amount of money you get back through the deduction will depend on how much you earn as income, and how much you deduct. You can use calculators, like **this one** from TurboTax, to estimate how much money will be refunded to you if you claim your deduction. The IRS also provides **this worksheet** to help you calculate how much your deduction will be.

There's also a **phaseout** that can limit the maximum deduction you can claim if your earnings fall within a specified range: you can claim the student interest rate deduction if your modified adjusted gross income (MAGI) is less than $80,000 (or $160,000 on a joint return). But be aware that if your MAGI is between $65,000 and $80,000 (if filing as an individual) or $130,000 to $160,000 (filing jointly), there's a phaseout of the benefit — your maximum deduction will be reduced according to a formula that's explained here. The maximum deduction for a couple filing jointly with $145,000 in MAGI, for example, is $1,250.

Forms

In order to claim your student loan interest deduction, you'll need to fill out a form called the 1098-E, officially known as the Student Loan Interest Statement. The 1098-E, which you should get from your student loan servicer (the company that collects payment on your loans), details how much interest you paid on your loans during the tax year. Remember that the 1098-E is a record from your servicer — just because you receive one does not mean you automatically qualify for the deduction.

TUITION AND FEES DEDUCTION

What is it?

College is expensive, but the good news is that you might be eligible to deduct certain qualified education expenses for yourself, your spouse or for a dependent. Similar to the student loan interest rate deduction, the tuition and fees deduction can reduce your taxable income by up to $4,000.

Eligibility

Generally, you can claim the tuition and fees deduction if:

- You pay qualified education expenses of higher education
- You pay the education expenses for an eligible student
- The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return

The tuition and fees deduction is based on **qualified education expenses** — so if you paid expenses to an eligible educational institution (virtually all accredited public, nonprofit, and for-profit schools in the U.S.), and you meet the eligibility criteria, you could claim this deduction. But be careful what you try to claim it for.

Qualified education expenses don't include amounts paid for room and board, transportation, insurance, and medical expenses including student health fees -- even if payments for these expenses are made to the institution as a condition of enrollment.

Student activity fees and expenses for course-related books, supplies, and equipment aren't considered qualified education expenses unless they must be paid to the institution as a condition of enrollment or attendance. Just because a textbook is required for a class, doesn't mean it's required as a condition of enrollment or attendance.

Caveats

- If any of the following apply to you, you will not be eligible to claim this deduction at all:
- You file taxes as "married filing separately"
- Another person can claim an exemption for you as a dependent on his or her tax return
- Your modified adjusted gross income (MAGI) is more than $80,000 (or $160,000 if you are filing a joint return).
- You (or your spouse) were a nonresident alien for any part of 2015 and the nonresident alien didn't elect to be treated as a resident alien for tax purposes

Forms

Form 1098-T (not to be confused with form 1098-E, which is for the student loan interest deduction), will help you figure your tuition and fees deduction. Generally, your school or college will send Form 1098-T to you by February 1, 2016. When you're trying to figure out your deduction, remember to account for only the educational expenses you had in 2015.

Your school or college may also require that you fill out and submit Form W-9S, in order to have a record of your name, address, taxpayer identification number, and other related information.

TAX CREDITS

AMERICAN OPPORTUNITY TAX CREDIT

What is it?

A tax credit directly reduces the amount of tax you owe, and if a tax credit reduces your tax to less than zero, you may even **get a refund**. The American Opportunity Tax Credit (AOTC) allows for a maximum annual credit of $2,500 per student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to $1,000) refunded.

If you qualify, the AOTC will account for the full 100 percent of the first $2,000 of your eligible higher education expenses, and a further 25 percent of the next $2000.

Generally speaking, credits are better than deductions, because they directly reduce the amount you pay in taxes. Credits have another advantage over deductions, in that they are partially refundable, which means that even if it brings your tax liability down to zero, you are still eligible to have up to $1,000 of the credit refunded to you.

Eligibility

While the AOTC has many benefits, it also has the most stringent eligibility criteria.
To qualify, you must:

- Be pursuing a degree or other recognized education credential
- be in your first four years of higher education
- enrolled at least half-time in a degree-seeking program
- not have any felony drug convictions on your record
- Not have claimed the AOTC or the former Hope credit for more than four tax years

Caveats

You will not be eligible for the AOTC if any of the following apply to you:

- Your modified adjusted gross income (MAGI) is more than $80,000 (or more than $160,000 if you are married filing jointly).
- Your MAGI is over $90,000 (more than $180,000 for joint filers).
- If your MAGI is over $80,000 but less than $90,000 (over $160,000 but less than $180,000 for married filing jointly), you will receive a reduced amount for this credit.

Forms

To claim the AOTC, you need to fill out **Form 8863** and attach it to your Form 1040 or 1040A. To help you fill out Form 8863, you should receive **Form 1098-T** (Tuition Statement) from your school by January 31st.

The tuition statement will help you figure out how much you paid in higher education expenses for the given year. The 1098-T will have an amount in either box 1 or 2 to show the amounts received or billed during the year.

You must make sure that the claim amount on the form is the correct amount! Review the **qualified education expenses** page here to figure out how much you should claim.

Unlike the tuition and fees deduction, the AOTC considers expenses for books, supplies and equipment you need for your course of study to be qualified education expenses (sweet!). You still can't claim room and board, transportation, insurance, and medical expenses as qualified education expenses (rats!).

LIFETIME LEARNING CREDIT

What is it?

The Lifetime Learning Credit (LLC) may not save you as much money as the AOTC, but can still be very helpful, and is easier to qualify for.

The LLC will provide for 20 percent of the first $10,000 in qualified higher education expenses, saving you up to $2,000. The LLC is a tax credit, so it could potentially reduce your owed taxes to zero. Unlike the AOTC though, the LLC is not refundable, so you won't actually get any money back.

As with the tuition and fees deduction, not all of your school-related expenses will qualify. Student activity fees and expenses for course-related books, supplies, and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

Also keep in mind that you cannot claim both the AOTC and the LLC for the same student in the same year. If you're eligible for both the AOTC and the LLC, keep in mind that the AOTC is usually more lucrative. If, however, you paid the higher education expenses of two separate dependents, you could claim different credits for each of them (the AOTC for one student and the LLC for the other, for example).

Eligibility

The LLC is easier to qualify for than the AOTC. You can claim the lifetime learning credit if:

- You pay qualified higher education expenses.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse, or a dependent for whom you claim an exemption on your tax return.

Caveats

To qualify for the LLC, your modified adjusted gross income (MAGI) must be less than $65,000 if you are single, the head of your household, or a qualifying widow(er) (or less than $130,000 if you are married filing jointly).

You are also ineligible for the LLC if:

- Your filing status is married filing separately.
- You are listed as a dependent on another person's tax return (such as your parents').
- You (or your spouse) were a nonresident alien for any part of 2015 and the nonresident alien didn't elect to be treated as a resident alien for tax purposes.
- You have claimed the American Opportunity Credit or a tuition deduction in the same year for the same student.

Forms

You can claim the LCC the same way you claim the AOTC — by completing Form 8863 and submitting it with your Form 1040 or 1040A.

SAVINGS PLANS AND TAX STRATEGIES

529 SAVINGS PLAN

What is it?

Knowing about the various deductions and credits available to you is important, but probably the most helpful thing you can do when it comes to paying for college, is saving. A **529 savings plan** -- a college savings account that's exempt from federal taxes -- can help you start saving for college early, and often have tax benefits at the state level for in-state residents.

The primary benefit of 529 plans is that earnings are not subject to federal tax (and are usually not subject to state tax either), if they are used to pay for qualified higher education expenses such as tuition, fees and books -- even laptop and tablet computers now qualify. However, contributions to a 529 plan are not deductible.

There are multiple 529 plans available within each state, and dozens of plans are also available nationally, so you don't have to limit yourself to the plans your state offers. Each plan comes with its own set of fees, so be sure to shop around before you pick one. While you can get some plans directly from the state, some plans are sold through an advisor -- these advisors may charge you additional fees, so make sure to take those into account when comparing plans.

Eligibility

Being eligible for a 529 savings plan is easy — you just have to be a U.S. citizen or resident alien, and be at least 18 years old. Typically, parents will open 529 accounts for a beneficiary, like a child or grandchild, but adults can also open 529 accounts for themselves.

There are no income restrictions on who can own or contribute to a 529 plan. Further, most 529 savings plans do not require you to withdraw your contributions within a certain period of time or have a significant age requirement.

Caveats

Every 529 plan carries various fees. These can be complicated to sort through, but they include advisor fees, program management and maintenance charges, and underlying investment fees.

Remember that an in-state tax deduction, if available, can offset a number of plan fees. Fees can vary significantly between plans, and actively managed funds will generally carry higher underlying expenses than index funds. States and program managers also waive fees for various reasons, including if you fund your account via direct deposit. When choosing a plan, be sure to look into any fee waivers that may apply.

Before setting up a 529 savings plan account, remember that:

A 529 account can have only one owner, but one person can own multiple accounts (for multiple beneficiaries).

There can only be one beneficiary per account (although a beneficiary can receive contributions from multiple accounts, as long as the total amount of money in all the accounts doesn't exceed the state maximum limit* on contributions).

*Each state has a different maximum for the total amount of money you can contribute to one beneficiary -- once you hit the limit, you can no longer deposit money into your 529 account. Most contribution limits are between $300,000 and $400,000 per beneficiary — make sure to check the rules for the state in which you choose to open your account.

Forms

To learn more about a particular 529 plan and open an account, contact the state which administers the program directly.

TAX STRATEGIES: STUDENT LOANS, INVESTING, AND HOME OWNERSHIP

Credible believes in education and transparency, but we are not tax advisors. The following advice is meant to be educational in nature and is not not tax advice. Readers should consult their tax advisors concerning the application of tax laws to their particular situation.

What you should know

- From a tax standpoint, should you pay off student loan debt or invest?

  If you have student loans that carry lower interest rates, particularly subsidized government loans, you don't necessarily have to put off investing, especially if the monthly payments are manageable. If your employer offers a 401(k) or other retirement plan, many financial advisors recommend taking full advantage of employer matching dollars.

- Consider the mortgage interest deduction.

  One of the best tax perks available to many households is the **mortgage interest deduction**. Just as you can deduct the interest paid on your student loans from your taxable income, you can deduct the interest paid on your mortgage. Because mortgages tend to be much bigger than student loans, the mortgage interest deduction can take a much bigger bite out of your tax bill than the student loan interest deduction -- the interest you pay on up to $1 million in qualified mortgage debt can be deducted from your income.

  According to the **Congressional Research Service**, Americans claiming the mortgage interest deduction in 2012 shaved about $1,906 off their tax bills on average, ranging from $891 in Ohio to $2,974 in California. **A recent analysis by Credible** found that student loan debt can limit your ability to take out a mortgage, so if homeownership is a long-term goal, paying down your student loan debt can help you realize that dream.

What you should watch out for

You may have to pay taxes on forgiven student loan debt:

If you're enrolled in an income-driven repayment plan, you could be eligible for loan forgiveness after 20 or 25 years. But under the current tax code, forgiven student loan debt (principal and interest) is taxable as income. [An exception is loan forgiveness granted to public servants and employees of nonprofits under the Public Service Loan Forgiveness Program, which is not considered taxable income.] A borrower making $50,000 a year in adjusted gross income when they begin paying back $100,000 in graduate student loan debt could end up facing a $26,700 tax bill under one popular plan, PAYE. The newest income-driven repayment plan, REPAYE, includes a subsidy that counts only half of the unpaid interest as forgiven debt, so the tax bill would be smaller — about $16,000 (for more details on this and other borrower scenarios, see **Credible's REPAYE guide**). Note that Congress could have a change of heart and **repeal the tax on forgiven student loan debt**.

- Your tax filing status can affect your income-driven repayment plan:

  Your tax filing status affects two issues: your eligibility for certain income-driven repayment plans, and the amount of your monthly loan payment.

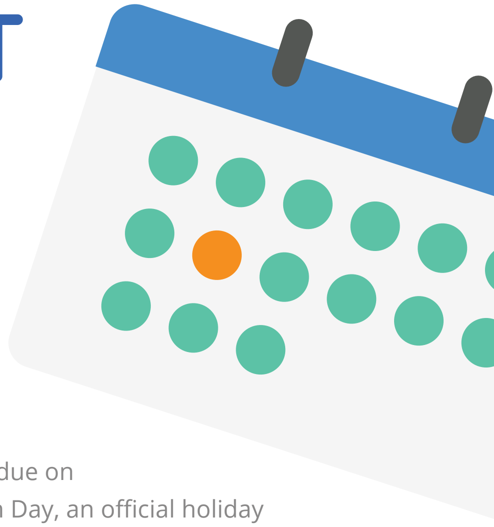
  Eligibility: If you are married and filing jointly that could affect your income, and whether you are eligible for some income-driven plans like PAYE and IBR. It will not affect your eligibility for other income-driven plans like REPAYE and ICR.

  Determination of monthly payment: For PAYE, IBR and ICR, the loan servicer will only take into account you and your spouses' combined income if you file jointly. If you file separately, only your own income will be considered in calculating your monthly payment. This means that if you and your spouse are both employed, filing jointly could result in a larger monthly loan payment in the PAYE, IBR and ICR plans. For REPAYE, the loan servicer will use both incomes to calculate your monthly payment amount, regardless of whether you file separately or jointly (exception: you are separated from your spouse or are unable to reasonably access your spouse's income).

- Your big tax refund may be bad for you:

  If you find yourself cashing a big **tax refund** check every year, you might want to think twice about whether that's a good thing. Getting a tax refund means that you let Uncle Sam withhold too much from your paycheck. While you'll eventually get that money back, you're essentially giving the government an interest-free loan until your refund check arrives. One way to adjust your withholdings is to increase the number of exemptions you enter on the W-4 on file with your employer. You can use the **IRS withholding calculator** to make sure you're claiming enough exemptions.

DEADLINES AND OTHER IMPORTANT INFORMATION



DEADLINES

It's no good having all this tax information if you miss out on the deadline! For 2016, be aware that there has been a date change. Typically, taxes are due on April 15th of each year. However, this year, April 15th falls on Emancipation Day, an official holiday in Washington, D.C.

As a result, the **tax deadline has been extended until April 18** for most filers. If you live in Massachusetts or Maine, where Patriots' Day is celebrated on the third Monday in April, you get a further extension until April 19th.

If you've got a refund coming from the government, there's no reason to wait to file — the IRS started taking individual electronic returns on Jan. 19. The IRS issues more than 90 percent of refunds in less than 21 days, so **filing your tax return online** and authorizing direct deposit of your refund check into your bank account is the fastest way to get your money.

WHERE TO GO IF YOU NEED HELP

In all things be accurate — you always want to make sure you're getting the most precise and up-to-date information. The **IRS' help page** is a good place to go if you're confused or have any questions about filing your taxes. Credible's **resource center** is another comprehensive resource where you can find relevant information on filing your taxes, or figuring out which deductions or credits you may be eligible for. You can also **reach out** to Credible's support team with any questions you may have about how your student debt may affect your taxes.

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WE'D LOVE TO HEAR FROM YOU!

Credible is here to help you with all your student loans needs. See how much you can save by refinancing your student loans with Credible at www.credible.com! If you have any questions about refinancing, or you just want to chat about what options are available to you, please contact us directly at **415.801.0482** or email us at **support@credible.com**.

We look forward to hearing from you! —The Credible Team

ABOUT CREDIBLE

Credible's founding principle is to provide borrowers the level of transparency they deserve.

As a multi-lender marketplace that allows borrowers to receive competitive loan offers from its vetted lenders, Credible empowers consumers to take control of their student loans. Borrowers can fill out one form, then receive and compare personalized offers from numerous lenders and choose which best serves their individual needs.

Credible is fiercely independent, committed to delivering fair and unbiased solutions in student lending.

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