

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1274 (Delegates Mizeur and Rosenberg)
 Ways and Means

Janet L. Hoffman Loan Assistance Repayment Program - Exemption from Taxation

This bill exempts from the State income tax any amount received by an individual under the Janet L. Hoffman Loan Assistance Repayment Program (LARP). The Maryland Higher Education Commission (MHEC) is required to examine the feasibility of restructuring the program as a qualifying loan program under § 108(f) of the Internal Revenue Code and report its findings to the Governor and the General Assembly by December 1, 2009.

The bill takes effect July 1, 2009 and applies to tax year 2009 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by \$95,600 in FY 2010 due to exemption of loan repayments. General fund expenditures increase by \$20,700 in FY 2010 for one-time tax form changes and computer programming modifications.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$95,600)	(\$96,500)	(\$98,800)	(\$101,700)	(\$104,800)
GF Expenditure	\$20,700	\$0	\$0	\$0	\$0
Net Effect	(\$116,300)	(\$96,500)	(\$98,800)	(\$101,700)	(\$104,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local income tax revenues decrease by \$62,000 in FY 2010 and by \$68,000 in FY 2014. Expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: Except as discussed below, any loan repayment amount received by an individual is treated as a taxable benefit under federal tax law. Since Maryland conforms to federal law, any amount received is also taxable for State income tax purposes.

Section 108(f) of the Internal Revenue Code provides that under certain circumstances, certain loans that are made to “refinance” a student loan may qualify for special federal income tax treatment. The provision of § 108(f) regarding “refinancing loans” seems to require that the refinancing loan be made by either an educational organization or an organization exempt from tax under § 501(a) of the Internal Revenue Code, and thus do not appear to include “refinancing loans” made by the State.

Any amount received under the National Health Service Corps Loan Repayment Program or any State program eligible for funds under the Public Health Service Act are not taxed.

Background: The Janet L. Hoffman Loan Assistance Repayment Program provides loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, dentists, and professionals serving low-income families. The program is subdivided into LARP, LARP-PCS, and MDC-LARP. Individuals must be employed full-time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

LARP

Eligible employment fields include lawyers, nurses, nurse faculty members, physical and occupational therapists, social workers, speech pathologists, physician assistants, and certain teachers. An individual may not have an annual gross income in excess of \$60,000 and combined salaries of \$130,000 if married (for nurse faculty members \$75,000 and \$160,000, respectively). Awards are distributed over a three-year period with maximum awards ranging from \$4,500 to \$30,000 depending on the individual’s student loan debt.

LARP-PCS

Primary care physicians and medical residents in a residency program specializing in primary care can qualify for up to \$120,000 in loan repayment. In exchange for agreeing to serve full-time as a primary care physician in an underserved area in the State for a period of two to four years, physicians receive between \$25,000 and \$30,000 annually.

MDC-LARP

Practicing dentists can receive up to \$23,000 per year of obligated service in addition to a supplement amount equal to 39% to help defray associated tax liability. The maximum award cannot exceed \$99,000. Individuals must agree to remain employed full-time as a dentist with Maryland Medical Assistance Program recipients comprising at least 30% of the patient population.

The proposed fiscal 2010 State budget includes \$2.7 million for the program. Of this amount, \$2.0 million is general funds that are used for LARP and MDC-LARP and \$650,000 is generated from special and reimbursable federal funds and is used for LARP-PCS. **Exhibit 1** shows the amount of funding provided to the program in fiscal 2008 through 2010.

Exhibit 1
State Funding for Janet P. Hoffman LARP
Fiscal 2008-2010

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Amount Awarded	\$2,807,150	\$2,987,295	\$2,682,795
Individuals	401	434	433
Average Award	\$7,001	\$6,883	\$6,196

State Revenues: Subtraction modifications can be claimed beginning in tax year 2009. As a result, general fund revenues decrease by approximately \$95,600 in fiscal 2010 and by \$104,800 in fiscal 2014. **Exhibit 2** shows the potential State and local revenue decrease over the five-year period. This estimate is based on the proposed amount of fiscal 2009 awards and the following facts and assumptions:

- according to MHEC, the LARP-PCS program is eligible for funds under the Public Health Service Act, any amount received under this program is currently not subject to State taxation; and
- in fiscal 2008, 384 recipients of LARP awards were required to report awards totaling \$2.0 million as part of federal adjusted gross income.

Exhibit 2
Potential State and Local Revenue Decrease

<u>Fiscal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
2010	\$95,600	\$62,000	\$157,600
2011	96,500	62,600	159,100
2012	98,800	64,100	162,900
2013	101,700	66,000	167,700
2014	104,800	68,000	172,800

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$20,700 in fiscal 2010 to add the subtraction modification to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Local income tax revenues will decrease by about 3% of the amount of subtractions claimed as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General, Maryland Higher Education Commission, Department of Health and Mental Hygiene, Comptroller's Office, Department of Legislative Services

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mlm/hlb

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