

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

House Bill 623
Ways and Means

(Delegate Rosenberg, *et al.*)

Income Tax - Subtraction Modification - Student Loan Payments for Qualified Attorneys

This bill creates a subtraction modification against the State income tax for qualified student loan payments incurred by an individual to attend law school. In order to qualify, the individual must work for the State, a local government, or a nonprofit organization.

The bill takes effect July 1, 2011, and applies to tax year 2011 and beyond.

Fiscal Summary

State Effect: General fund revenues will decrease significantly beginning in FY 2012 due to subtraction modifications claimed against the personal income tax. General fund expenditures increase by \$22,000 in FY 2012 for one-time tax form changes and computer programming modifications at the Comptroller’s Office.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$22,000	\$0	\$0	\$0	\$0
Net Effect	(\$22,000)	\$0	\$0	\$0	\$0

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

Local Effect: Local income tax revenues will decrease by a significant amount beginning in FY 2012.

Small Business Effect: None.

Analysis

Bill Summary: This bill creates a subtraction modification against the State income tax for student loan payments incurred by an individual to attend law school and who works (except as a judicial clerk) for the State, a local government, or a nonprofit organization. The subtraction modification includes both the amount of interest and principal paid during the year.

The subtraction modification may not include (1) any amount deducted under the federal student loan interest deduction under Section 221 of the Internal Revenue Code (IRC); or (2) any amount excluded from income under Section 108(f) of the IRC.

Current Law: Certain interest paid on student loans may qualify for a federal income tax deduction. Maryland conforms to federal tax law, so any amount deducted under federal law flows through for Maryland income tax purposes.

Section 221 of the IRC allows a deduction of up to \$2,500 of the student loan interest paid during the year on a qualified student loan. A taxpayer is not required to itemize deductions in order to claim the student loan deduction. The deduction begins to phase out for taxpayers with modified adjusted gross income in excess of \$60,000 (\$120,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income of \$75,000 or more (\$150,000 or more for joint returns).

Relief from a debt generally causes the debtor to realize cancellation of debt income and this income may be taxable. However, Section 108(f) of the IRC excludes from income certain student loan cancellation (forgiven) and student loan repayment assistance under certain circumstances.

Background: In addition to the federal income tax treatment of student loan repayments, federal, State, and private loan repayment programs provide repayment assistance in exchange for certain service commitments. The Janet L. Hoffman Loan Assistance Repayment Program (LARP) provides 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. In fiscal 2010, under the current LARP program, the Office of Student Financial Assistance (OSFA) received 71 applications from lawyers. OSFA was able to grant 29 awards, with an average award of approximately \$9,000.

State Revenues: State general fund revenues will decrease significantly, beginning in fiscal 2012, due to the subtraction modification created by the bill. However, the amount of any decrease depends on the number of individuals working for the State, local government, or a nonprofit organization with a law degree, the percentage of these

individuals who have outstanding loans, the amount of loan payments made, and the amounts that are excluded under federal tax law and amounts repaid under repayment programs.

As a point of reference, the National Center for Education Statistics estimated that 88.6% of recent law school graduates had a student loan and that the average amount borrowed for law school was \$80,000. For each individual that qualifies for the maximum federal student loan deduction and takes a 10-year repayment plan, State revenues would decrease by about \$408 annually. Local income tax revenues would decrease by \$257 annually for each individual.

According to the Maryland Higher Education Commission, approximately 34,500 licensed attorneys currently practice law in Maryland. The Bureau of Labor Statistics estimates that, not including individuals who are self-employed or working as a partner in a law firm, there are 109,420 lawyers in Maryland. The amount of individuals who qualify will be significantly less as only individuals who work for the State, local government, or nonprofit organization will qualify.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$22,000 in fiscal 2012 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 the subtractions claimed. Local revenues will decrease significantly beginning in fiscal 2012.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Comptroller's Office, National Center for Education Statistics, Department of Legislative Services

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