HB 154

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 154 (Delegate Leopold)
Ways and Means

Income Tax - Subtraction Modification for Interest on Student Loans

This bill creates a subtraction modification for the individual income tax for amounts paid as interest on loans taken out to pay for tuition, fees, room, and board for an individual at an institution of higher education. If the taxpayer itemizes deductions, the subtraction cannot include any interest that is qualified residence interest (i.e., interest paid on a home equity loan). The subtraction can be claimed for interest paid on student loans for the taxpayer or a dependent.

This bill is effective July 1, 1996, and applies to all taxable years beginning after December 31, 1995.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $804,000 in FY 1997, increasing by 6% in the out-years as tuition increases. Expenditures would not be affected.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	($804,000)	($852,000)	($903,000)	($957,000)	($1,015,000)
GF Expenditures	0	0	0	0	0
Net Effect	($804,000)	($852,000)	($903,000)	($957,000)	($1,015,000)

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

Local Effect: Local revenues could decline by an estimated $438,000 in FY 1997. Expenditures would not be affected.

Fiscal Analysis

State Revenues: General fund revenues could decline by an estimated $804,000 in fiscal 1997, based on the following facts and assumptions:

- 38,600 students at Maryland institutions of higher education received an average Stafford loan of $3,675 for the 1993-94 school year;
- 8,100 students at Maryland institutions received an average Perkins loan of $1,600 for the 1993-94 school year;
- the interest rate for Stafford loans is 8.25%;
- the interest rate for Perkins loans is 5%;
- Stafford and Perkins loans account for 75% of total loan volume;
- tuition costs will increase by 6% per year;
- enrollment will be steady;
- 75% of Maryland residents who are students attend Maryland institutions;
- 18% of students at Maryland institutions are not Maryland residents; and
- Maryland residents pay Maryland income taxes.

The total amount of Stafford and Perkins loans for students in Maryland institutions of higher education for the 1993-94 school year was $154.8 million, resulting in interest payments of an estimated $10.9 million. This amount must be adjusted as follows:

- increased to account for all student loans (not just Perkins and Stafford);
- reduced to account for non-residents at Maryland schools; and
- increased to account for Maryland residents at other states' schools.

These adjustments bring the total annual interest for Maryland residents to $16.1 million. Since enrollments are generally steady, it is assumed that interest incurred by currently enrolled students approximates interest currently being paid by those who are repaying their loans. Assuming all relevant taxpayers (parents or non-dependent students) are in the 5% tax bracket, the revenue loss in fiscal 1997, when tax year 1996 returns are filed, could total an estimated $804,000. Out-year estimates increase at 6% per year assuming loan amounts increase with tuition and enrollment is constant.

This loss could be higher to the extent that credit cards are used for eligible expenditures. This amount cannot be reliably estimated at this time. The loss will also be higher to the extent that this bill induces individuals to incur indebtedness for higher education purposes who otherwise would not.

Local Revenues: Local governments will lose piggyback revenues of about 54.5% of the

State loss in each fiscal year. In fiscal 1997, the loss could total $438,000.

Information Source(s): Maryland Higher Education Commission, Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

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