HB 50

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 50 (Delegate Leopold, *et al.*)
Ways and Means

Income Tax - Subtraction Modification for Interest on Student Loans

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This bill creates a subtraction modification for the individual income tax for amounts paid as interest on student loans taken out to pay for tuition, fees, room, and board for an individual at an institution of higher education. The subtraction may only be taken if these costs exceed 25% of an individual's federal adjusted gross income (FAGI). The subtraction can be claimed for interest paid on student loans for the taxpayer or a dependent. 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).

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

Fiscal Summary

State Effect: General fund revenues would decline by an estimated $82,400 in FY 1998, increasing by 6% annually. Expenditures would not be affected.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	($82,400)	($87,300)	($92,600)	($98,100)	($104,000)
GF Expenditures	0	0	0	0	0
Net Effect	($82,400)	($87,300)	($92,600)	($98,100)	($104,000)

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

Local Effect: Local revenues would decline an estimated $44,900 in FY 1998. Expenditures would not be affected.

Small Business Effect: None. The bill would not directly affect small business.

Fiscal Analysis

State Revenues: General fund revenues could decline an estimated $82,400 in fiscal 1998 based on the following. This estimate assumes that the only taxpayers who could take the subtraction are parents who receive PLUS loans. These loans are the only major federal student loans on which interest must be paid immediately. For most other types of loans (Stafford, Perkins, etc.), interest payments can be deferred until after the student is out of college. In these cases, tuition does not exceed 25% of FAGI since there are no tuition payments.

In fiscal 1995, about 5,500 parents received PLUS loans totaling $36.2 million. The interest rate on these loans averages 8.795%. Thus, about $3.2 million is paid in interest on these loans each year. The loan amounts average about $6,600, which is 25% of $26,400. About 45% of Maryland taxpayers have FAGI under this amount. It is assumed that 45% of PLUS loans go to parents with FAGI under $26,400 (less than 45% of college students come from families with income under this amount, but more than 45% of families with income under this amount require loans and other aid). Therefore, of the 5,500 parents, 2,475 would be eligible to claim the subtraction, totaling $1,466,000. At the 5% marginal tax rate, the revenue loss would have been $73,300 attributable to tax year 1995. The loss is estimated to grow at 6% annually, with tuition growth (and would also vary with inflation), so the tax year 1997 loss would be $82,400. Since the subtraction is effective for tax year 1997, it will be taken when 1997 returns are filed in fiscal 1998.

Local Revenues: Local revenues will decline by 54.5% of the State revenue loss through the piggyback tax, for a loss of $44,900 in fiscal 1998.

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

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