

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1659

(Delegate Rosenberg)

Appropriations

Budget and Taxation

State Personnel - Student Loan Repayment Pilot Program

This bill alters the Student Loan Repayment Pilot Program (SLRPP) so that a participating unit may repay a student loan by making a payment directly to either a lender on behalf of an employee or to an employee, if the employee provides satisfactory proof that the payment has been used to repay the employee's student loan. However, if the employee fails to use the benefits to repay the student loan or does not provide satisfactory proof of student loan repayment, the employee must repay the amount to the State. Moreover, the bill extends the termination date of SLRPP from September 30, 2009 to September 30, 2011.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Since the student loan repayment benefit is still limited to the participating units' existing resources, the bill's provisions would not materially impact State finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: SLRPP authorizes a participating unit to repay an employee's student loans by making direct payments on behalf of an employee in the participating unit. Payments for student loan repayment are not authorized to be paid directly to the

individual employee to repay the student loan. "Participating unit" means the Department of Budget and Management, the Department of Legislative Services (DLS), or the Department of Juvenile Services.

Student loan payments are to be made from a participating unit's existing resources, may not exceed a total of \$125,000 annually, and may not be made to reimburse an employee for payments already made on the employee's student loan.

Background: Student loan assistance is considered to be a taxable benefit to employees and is subject to withholding of federal and State income taxes, as well as FICA taxes. DLS advises that, as it attempted to develop a process to get the program off the ground, it was discovered that the additional tax withholding could be more harmful to an employee in the short term. This is especially true if the department were to give an employee a meaningful amount (\$5,000 or more). Not knowing if a lender would reamortize the loan given a lump sum, the employee may continue having to make the same monthly student loan payments as well as having the additional taxes deducted from his/her salary.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Juvenile Services, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 16, 2006
ncs/ljm

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