

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1408 (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 bill takes effect July 1, 2008 and applies to tax year 2008 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by \$98,000 in FY 2009 due to exemption of loan repayments. Future losses would increase by 3% annually. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$98,000)	(\$101,000)	(\$103,900)	(\$107,100)	(\$110,300)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$98,000)	(\$101,000)	(\$103,900)	(\$107,100)	(\$110,300)

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

Local Effect: Local income tax revenues could decrease by \$63,600 beginning in FY 2009. Future losses would increase by 3% annually, totaling \$71,600 in FY 2013. Expenditures would not be 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.

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. 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 2009 State budget includes \$2.9 million for the program. Of this amount, \$2.0 million is general funds that are used for LARP and MDC-LARP and \$850,000 is generated from special and reimbursable federal funds and is used for LARP-PCS. The maximum annual LARP award is \$10,000, and LARP-PCS awards range from \$25,000 to \$30,000 per year. **Exhibit 1** shows the amount of funding provided to the program in fiscal 2007 through 2009. Recent changes to the program increased the average award amount in order to foster a greater incentive to enter the program.

Exhibit 1
State Funding for Janet P. Hoffman LARP
Fiscal 2007-2009

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Amount Awarded	\$2,740,642	\$2,887,295	\$2,902,795
Individuals	588	456	456
Average Award	\$4,661	\$6,332	\$6,366

State Revenues: Subtraction modifications could be claimed beginning in tax year 2008. As a result, general fund revenues could decrease by approximately \$98,000 in fiscal 2009 and by \$110,300 in fiscal 2013. **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
- the amount of awards increases 3% annually.

Exhibit 2
Potential State and Local Revenue Decrease

<u>Fiscal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
2009	\$98,000	\$63,600	\$161,600
2010	101,000	65,500	166,500
2011	103,900	67,500	171,400
2012	107,100	69,500	176,600
2013	110,300	71,600	181,900

Local Revenues: Local income tax revenues would decrease by about 3% of the amount of subtractions claimed as shown in Exhibit 2. Local income tax revenues would decrease by \$63,600 in fiscal 2009, \$65,500 in fiscal 2010, \$67,500 in fiscal 2011, \$69,500 in fiscal 2012, and \$71,600 in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Internal Revenue Service, Maryland Higher Education Commission, Department of Legislative Services

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