

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 593
Ways and Means

(Delegate Hettleman, *et al.*)

Budget and Taxation

Income Tax - Student Loan Tax Credit

This bill expands eligibility of the student loan debt relief tax credit by specifying that for the purposes of the program student loan debt includes graduate school debt. **The bill takes effect July 1, 2018, and applies to tax years 2018 and beyond.**

Fiscal Summary

State Effect: Allowing additional individuals to qualify for tax credits will not alter the fiscal impact of the program beyond that provided under current law.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: Chapters 689 and 690 of 2016 established the student loan debt relief tax credit, a refundable income tax credit of up to \$5,000. By September 15 of each year, an individual must submit an application to the Maryland Higher Education Commission (MHEC). In order to qualify, an individual must have incurred at least \$20,000 in undergraduate student loan debt and have at least \$5,000 in outstanding undergraduate student loan debt at the time of application.

Upon application an individual must include an assurance that the individual will use any credit approved by MHEC for the repayment of the individual's undergraduate student loan debt as soon as practicable. The total amount of the credit claimed must be recaptured if the individual does not use the tax credit for the repayment of the individual's

undergraduate student loan debt within two years from the close of the taxable year for which the credit is claimed.

MHEC may approve a maximum of \$5.0 million in tax credits in each year. MHEC must prioritize tax credit recipients and amounts based on qualified taxpayers who:

- have higher debt burden to income ratios;
- graduated from an institution of higher education located in the State;
- did not receive a tax credit in a prior year; or
- were eligible for in-state tuition.

Chapters 689 and 690 also required MHEC to establish and implement an outreach and marketing plan to make eligible taxpayers aware of the availability of the tax credit.

Background: In the first year of the program, calendar 2017, MHEC received 4,988 applications, of which 4,422 qualified for the program. MHEC awarded a tax credit of \$1,201 to each of the 2,881 applicants who qualified for in-state tuition (a total of \$3.5 million in credits) and a tax credit of \$1,000 to the other 1,541 applicants (\$1.5 million in credits). Individuals had an average student debt level of \$40,207.

State Fiscal Effect: While the bill allows additional individuals to include graduate student debt in meeting the program's requirements, it will not alter the overall fiscal impact of the tax credit program. It is expected that MHEC will award the maximum amount of credits available in fiscal 2019.

MHEC advises it will incur additional expenditures as the bill requires the agency to implement an outreach campaign and prioritize tax credits applications. The Department of Legislative Services notes that these requirements were established by Chapters 689 and 690. Accordingly, the bill's requirements can be handled with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Department of Legislative Services

Fiscal Note History: First Reader - February 9, 2018
md/hlb Third Reader - March 17, 2018

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510