

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 Enrolled - Revised

Senate Bill 933

(Senator Kasemeyer, *et al.*)

Budget and Taxation

Appropriations

College Affordability – Maryland 529 Plans and Student Loan Debt Relief Tax  
 Credit – Revisions

This bill increases the State matching contribution from \$250 to \$500 for specified 529 investment account holders, extends the eligible contribution period, and makes related changes. The bill also reduces the minimum amount of funding the Governor must provide for matching contributions to \$3.0 million annually, beginning in fiscal 2019, and increases the amount that may be certified for Student Loan Debt Relief Tax Credits each year to \$9.0 million. The bill also requires that a \$250 State matching contribution be made by June 30, 2018, to investment account holders who would have been eligible in 2017 except for the timing of their contributions. **The bill takes effect June 1, 2018, and the tax credit provision applies to all taxable years beginning after December 31, 2017.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$21,500 in FY 2018. The FY 2018 budget includes sufficient funds to cover the bill’s costs prior to a planned reversion at the end of the fiscal year, as discussed below. General fund expenditures decrease by \$4.0 million in FY 2019 and \$7.0 million annually thereafter. General fund revenues decrease by \$4.0 million annually beginning in FY 2019. **This bill decreases a mandated appropriation beginning in FY 2019.**

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	\$0	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)
GF Expenditure	\$21,500	(\$4,000,000)	(\$7,000,000)	(\$7,000,000)	(\$7,000,000)
Net Effect	(\$21,500)	\$0	\$3,000,000	\$3,000,000	\$3,000,000

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

**Local Effect:** Local income tax revenues decrease minimally beginning in FY 2019 due to additional tax credits taken under the bill. Local expenditures are not directly affected.

**Small Business Effect:** None.

## Analysis

### Bill Summary:

#### *State Matching Contributions*

Minimum contributions necessary for a 529 investment account to be eligible for a State matching contribution can be made at any time prior to November 1 of a given year. For two of the three income levels under the program, the State matching contribution is increased from \$250 to \$500. The new income levels and matching contributions are shown in **Exhibit 1**.

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**Exhibit 1**  
**Minimum Contributions and State Matching Contributions**  
**By Maryland Taxable Income**  
**The Bill**

<u>Income Range</u>		<u>Minimum</u>	<u>State Matching</u>
<u>Single</u>	<u>Married Filing</u> <u>Jointly</u>	<u>Contribution</u>	<u>Contribution</u>
Less than \$50,000	Less than \$75,000	\$25	\$500
\$50,000 to \$87,499	\$75,000 to \$124,999	\$100	\$500
\$87,500 to \$112,500	\$125,000 to \$175,000	\$250	\$250

Source: Department of Legislative Services

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A \$250 State matching contribution must be made by June 30, 2018, to investment account holders who would have been eligible in 2017 except for the timing of their contributions. An account holder who receives a State matching contribution due to this provision is also eligible for the State income tax deduction for 529 investment account contributions for tax year 2017.

The date by which the board must establish an outreach and marketing plan is extended by two years to September 1, 2018. The plan must (1) make use of a variety of marketing media, including billboards, brochures, and electronic resources and (2) provide a centralized contact point for individuals to obtain information about opening an account and the availability of a State contribution. By December 1, 2018, the board must submit a report to the General Assembly on the details of the plan.

### *Student Loan Debt Relief Tax Credit*

The amount of Student Loan Debt Relief Tax Credits that the Maryland Higher Education Commission (MHEC) may certify each year is increased from \$5.0 million to \$9.0 million. No other changes are made to the program or its eligibility criteria. This provision applies to all taxable years beginning after December 31, 2017.

### *529 Plans Named after Senator Edward J. Kasemeyer*

The two qualified tuition plans operated by the Maryland 529 Board, the Maryland Prepaid College Trust and the Maryland College Investment Plan, are renamed the Senator Edward J. Kasemeyer Prepaid College Trust and the Senator Edward J. Kasemeyer College Investment Plan, respectively.

**Current Law/Background:** As part of a multifaceted approach to address the affordability of higher education, the College Affordability Act of 2016 (Chapters 689 and 690) established an annual State matching contribution of \$250, per beneficiary, for new accounts in the Maryland College Investment Plan, which is administered by Maryland 529. The program is being implemented as the Save4College program. The College Affordability Act also established the Student Loan Debt Relief Tax Credit, administered by MHEC, which can annually certify up to \$5.0 million in refundable credits of up to \$5,000 each.

### *State Matching Contributions*

A 529 investment account is eligible for a \$250 State matching contribution each year, provided that the account holder applies between January 1 and June 1, the minimum contribution is made between July 1 and November 1, and other eligibility requirements are met. The State matching contribution is then made by the end of the calendar year. Only investment accounts created after December 31, 2016, are eligible.

The minimum personal contribution necessary to receive a State matching contribution varies with income, up to a maximum of \$125,000/\$175,000 for single/joint filers. The Governor must appropriate at least \$7.0 million in fiscal 2019, and \$10.0 million annually thereafter, for the State matching contributions. If funding provided in a fiscal year is not sufficient to fully fund all State contributions, Maryland 529 must prioritize certain recipients.

During the program's first application period from January 1 to June 1, 2017, 3,084 applications were filed. However, 1,269, or 41%, of applications were ultimately denied. Of those, 86 were denied even though they made sufficient contributions during the year to otherwise qualify, because they made contributions prior to the allowed July 1

to November 1 period. Maryland 529 administrators believe that enabling applicants to open an account and make the minimum required contribution to receive the State matching contribution at the same time would increase both applications and acceptances.

Matching contributions totaling \$453,750 were subsequently made in fiscal 2018. The Governor was required to include \$5.0 million in the fiscal 2018 budget to provide State matching contributions. The Governor's fiscal 2019 budget plan, which does not account for the bill, anticipates a reversion of \$4.5 million of unspent fiscal 2018 funds.

### *Student Loan Debt Relief Tax Credit*

An individual who has incurred at least \$20,000 in undergraduate student loan debt and has at least \$5,000 in outstanding undergraduate student loan debt is eligible for the Student Loan Debt Relief Tax Credit, a refundable income tax credit of up to \$5,000.

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.

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.

### *Senator Edward J. Kasemeyer*

Edward Kasemeyer has served in the Maryland General Assembly nearly continuously since 1983, when his single term in the Maryland House of Delegates began. He first served in the Maryland Senate in 1987 and has served in that role continuously since 1995. His many responsibilities have included being the chair and vice-chair of the Senate Budget and Taxation Committee, Senate Majority Leader, chair of the Howard County Senate Delegation, and Senate chair of the Spending Affordability Committee. He earned his bachelor's degree from Western Maryland College, now known as McDaniel College.

Senator Kasemeyer has served on or chaired numerous commissions and task forces. He served on the Task Force on the Maryland Prepaid Tuition Savings Program in 1996, which

recommended creating a program in Maryland, and was one of the primary sponsors of the 1997 legislation that established the Maryland Higher Education Investment Program – the precursor to what is now the Maryland Prepaid College Trust. He was also one of the primary sponsors of the 2000 legislation establishing the Maryland College Investment Plan.

## **State Revenues:**

### *Student Loan Debt Relief Tax Credit*

Based on the demand for the Student Loan Debt Relief Tax Credit in 2017, it is expected that MHEC will award the new maximum amount of \$9.0 million in credits each year beginning in tax year 2018. Therefore, general fund revenues decrease by \$4.0 million annually beginning in fiscal 2019 from credits taken against the personal income tax.

### *State Matching Contributions*

Allowing up to 86 investment account holders who receive a 2017 State matching contribution under the bill to also be eligible for the income tax deduction for contributions to a 529 investment account in tax year 2017 has a negligible effect on general fund revenues in fiscal 2018. This provision means that the individuals will not need to file amended 2017 tax returns if they have already filed their taxes claiming the income tax deduction.

**State Expenditures:** As discussed above, the bill makes 86 investment account holders eligible for the 2017 State matching contribution. As the bill takes effect June 1, 2018, and the additional 2017 State matching contributions must be made by June 30, 2018, this analysis assumes that the matching contributions are made to the investment accounts prior to the end of fiscal 2018. Accordingly, general fund expenditures increase in fiscal 2018 by \$21,500. Although the Administration's budget plan assumes that all of the unspent funds appropriated for the State matching contributions in the budget revert to the general fund at the end of fiscal 2018, this fiscal estimate assumes that a portion of the unspent fiscal 2018 funds can be used to cover these payments.

### *Reduced Mandated Appropriations Beginning in Fiscal 2019*

Beginning in fiscal 2019, the mandated appropriation for State matching contributions is reduced to \$3.0 million annually. It is assumed that this amount is sufficient to cover additional matching contributions made as a result of the bill, although general fund reversions may be less due to the matching contribution increase to \$500 if the program is not fully subscribed. Accordingly, general fund expenditures decrease by \$4.0 million in fiscal 2019 and \$7.0 million annually thereafter. The Budget Reconciliation and Financing

Act of 2018 (Senate Bill 187/Chapter 10) also reduces the mandated appropriation for State matching contributions to \$3.0 million annually beginning in fiscal 2019.

*Outreach and Marketing Plan*

Extending the date by which the outreach and marketing plan must be conducted and specifying criteria within the general scope of such a plan is not anticipated to materially affect Maryland 529 expenditures. Maryland 529 currently engages in similar marketing activities for the program.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1341 (Delegate Jones, *et al.*) - Appropriations.

**Information Source(s):** Maryland 529; Comptroller's Office; Department of Legislative Services

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