

Department of Legislative Services  
 Maryland General Assembly  
 2019 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 244

(Senator Kramer, *et al.*)

Budget and Taxation

Ways and Means

**Income Tax Credit - Individuals Working in STEM Fields - Student Loan Payments**

This bill creates a tax credit against the State income tax for an individual who (1) has student loan debt incurred to attend an institution of higher education and (2) is employed full-time in specified Science, Technology, Engineering, or Mathematics (STEM) fields by a Maryland-based employer. The Department of Commerce (Commerce) and the Maryland Higher Education Commission (MHEC) must jointly review tax credit applications based on specified criteria. The total amount of credits awarded in each tax year cannot exceed \$1.0 million. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

**Fiscal Summary**

**State Effect:** General fund expenditures may increase by \$1.0 million beginning in FY 2020 due to appropriations to the reserve fund established by the bill. Administrative costs at State agencies may increase by \$404,900 in FY 2020. Future years reflect ongoing operating expenditures and reserve fund appropriations. Revenues are not affected.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1.4	1.3	1.3	1.4	1.4
Net Effect	(\$1.4)	(\$1.3)	(\$1.3)	(\$1.4)	(\$1.4)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The tax credit may be awarded to an individual who applies to Commerce and who (1) graduated from an accredited institution of higher education with an associate, bachelor's, graduate, or postgraduate degree and has outstanding student loan debt incurred from attending the institution; (2) is employed full-time by a Maryland-based employer at a work location in the State; and (3) works in the following fields – advanced mathematics or finance; computer, information, or software technology; engineering; industrial design; life, natural, or environmental sciences; or medicine or medical device technology.

The credit may not exceed the tax liability imposed in the tax year; any unused amount can be carried forward to future tax years until the full amount of the excess is claimed. The value of the credit also may not exceed the amount of student loan payments made in the tax year. The maximum value of the tax credit depends on the degree attained by the individual and may not exceed \$1,000 (associate), \$4,000 (bachelor's), or \$6,000 (graduate or postgraduate). An individual who received a tax credit in each of the three prior calendar years is not eligible for the credit.

By December 1 of each year, an individual must submit an application to Commerce for the credit. Commerce must certify the amount of the credit by December 31.

MHEC and Commerce must jointly review applications and must prioritize tax credit recipients 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.

Commerce and MHEC must award at least 70% of tax credits to applicants whose student loans were incurred to attend an institution of higher education in the State.

The bill creates a reserve fund which consists of money appropriated for the fund in the State budget. The amount of credits that may be awarded in each tax year cannot exceed the amount of money in the fund. Commerce must (1) solicit partnerships with and donations to the fund from private businesses and (2) adopt regulations to implement the program.

**Current Law:** Certain interest paid on student loans may qualify for a federal income tax deduction. Maryland generally conforms to federal tax law, so any amount deducted under federal law flows through for Maryland income tax purposes. Section 221 of the Internal

Revenue Code allows a deduction of up to \$2,500 of the student loan interest paid during the year on a qualified student loan. A taxpayer is not required to itemize deductions in order to claim the deduction. The deduction begins to phase out for taxpayers with modified adjusted gross income in excess of \$65,000 (\$130,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income of \$80,000 or more (\$165,000 or more for joint returns).

In addition, individuals may qualify for the student loan debt relief tax credit as discussed below.

## **Background:**

### *Student Loan Debt Relief Tax Credit*

The Student Loan Debt Relief Tax Credit established a refundable tax credit of up to \$5,000 for qualified student loans to Maryland residents beginning in tax year 2017. Qualifying taxpayers must have had at least \$20,000 in total undergraduate student loan debt and have a remaining balance of at least \$5,000, and recipients must use the credit within two years to pay down the student loan. MHEC was initially authorized to approve \$5.0 million of tax credits annually. Chapter 382 of 2018 expanded the types of qualifying debt to include debt incurred for graduate school, and Chapter 419 of 2018 increased the total amount of credits that can be awarded to \$9.0 million annually.

In the first year of the program, tax year 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 2,881 applicants who qualified for in-state tuition and a tax credit of \$1,000 to the other 1,541 applicants. For the second year of the program, MHEC received 10,113 applications, which is more than double the number of applications from the previous year. MHEC awarded a tax credit of \$1,000 to each of the 5,231 applicants who qualified for in-state tuition and a tax credit of \$883 to the other 4,259 qualified applicants. MHEC did not award a tax credit in 2018 to any individual who received the tax credit in 2017.

### *STEM Graduates*

MHEC advises that of the 83,142 individuals who earned a degree from a Maryland institution of higher education from December 2014 through December 2015, a total of 8,723 are employed in a STEM field. Of these individuals, 4,517 are Maryland residents and have taken out at least one student loan during their academic career, as shown in **Exhibit 1**.

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**Exhibit 1**  
**Maryland Institution of Higher Education Graduates**  
**Currently Employed in STEM Fields and Received Student Loan Funds**  
**December 2014-December 2015**

<u>Degree</u>	<u>Total Graduates</u>	<u>Employed in STEM Fields</u>	
		<u>Total</u>	<u>With Student Loans<sup>1</sup></u>
Associate	18,151	1,986	1,210
Bachelor's	39,655	4,451	2,774
Masters	22,263	2,094	440
PhD	3,073	192	93
<b>Total</b>	<b>83,142</b>	<b>8,723</b>	<b>4,517</b>

STEM: Science, Technology, Engineering, or Mathematics

<sup>1</sup>Includes only Maryland residents

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**State Expenditures:** General fund expenditures may increase by \$1.0 million annually beginning in fiscal 2020 due to appropriations to the Student Loan Reimbursement Tax Credit Fund. Administrative costs at the Comptroller's Office, Commerce, and MHEC may increase by \$404,900 in fiscal 2020 and by \$364,900 in fiscal 2024.

*Student Loan Reimbursement Tax Credit Fund*

The bill creates a reserve fund which consists of money appropriated for the fund in the State budget. As a result, general fund expenditures will increase by \$1.0 million annually beginning in fiscal 2020. This estimate assumes that the fund receives the maximum tax credit funding in each year. To the extent the Governor provides less or no money to the reserve fund in any year, the increase in general fund expenditures will be less.

*Commerce*

Commerce requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$109,900 in fiscal 2020. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2019. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	1
Salaries and Fringe Benefits	\$104,390
Other Operating Expenses	<u>5,515</u>
<b>Total FY 2020 Expenditures</b>	<b>\$109,905</b>

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

*Maryland Higher Education Commission*

MHEC requires additional staff to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$239,900 in fiscal 2020. This estimate reflects the cost of hiring three staff to certify tax credits and perform related tasks beginning July 1, 2019. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	3
Salaries and Fringe Benefits	\$223,403
Other Operating Expenses	<u>16,545</u>
<b>Total FY 2020 Expenditures</b>	<b>\$239,948</b>

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

*Comptroller's Office*

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$55,000 in fiscal 2020 to add the tax credit to personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

**Additional Information**

**Prior Introductions:** HB 860 of 2018 received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

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

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