

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 680
 Ways and Means

(Delegate Toles, *et al.*)

Budget and Taxation

Income Tax - Student Loan Debt Relief Tax Credit - Alterations

This bill (1) increases, from \$9 million to \$18 million, the maximum amount of student debt relief tax credits the Maryland Higher Education Commission (MHEC) may approve for any taxable year; (2) requires MHEC to annually reserve \$9 million of the authorized credits for State employees, as specified; (3) requires MHEC to prioritize tax credit recipients and amounts based on whether the qualified taxpayers graduated from institutions of higher education in the State at which at least 40% of attendees are eligible to receive federal Pell Grants; (4) extends – from two to three years from the close of the tax year for which a credit is claimed – the timeframe within which the individual who claims the credit must use the credit for the repayment of the individual’s eligible student loan debt; and (5) requires MHEC to engage in specified outreach regarding the tax credit program. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond; the provision relating to the expanded timeframe for using the credit applies retroactively to credits claimed after tax year 2019.**

Fiscal Summary

State Effect: General fund revenues decrease by \$9 million annually beginning in FY 2024, as discussed below. The FY 2024 general fund revenue reduction is assumed in the FY 2024 budget. Expenditures are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$9.0)	(\$9.0)	(\$9.0)	(\$9.0)	(\$9.0)
Expenditure	0	0	0	0	0
Net Effect	(\$9.0)	(\$9.0)	(\$9.0)	(\$9.0)	(\$9.0)

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: As noted above, MHEC must reserve \$9 million of the authorized tax credits for State employees and must prioritize State employees who graduated from institutions of higher education in the State at which at least 40% of attendees are eligible to receive federal Pell Grants. If the total amount of tax credits applied for by State employees is less than \$9 million for a given year, MHEC may make available the unused amount of credits for use by other qualified taxpayers.

MHEC must encourage institutions of higher education in the State to advise new graduates, particularly those with an interest in public service, of the availability of the tax credit. In addition, the Office of Student Financial Assistance within MHEC must inform recipients of specified scholarships of the availability of the tax credit.

By January 1 annually, MHEC must report to the Governor and the General Assembly (1) the number of applicants for the tax credit; (2) the number and amounts of tax credits awarded to qualified taxpayers; (3) a breakdown of the age, gender, race, income, and counties of residency of credit recipients; and (4) any additional information that MHEC deems relevant.

Current Law: An individual who has incurred at least \$20,000 in undergraduate and/or graduate student loan debt and has at least \$5,000 in outstanding undergraduate and/or graduate student loan debt may be eligible for the student loan debt relief tax credit, a refundable credit of up to \$5,000. Chapter 419 of 2018 increased, from \$5 million to \$9 million, the maximum amount of student loan debt relief tax credits MHEC may approve each year.

To claim the credit, an individual must apply to MHEC by September 15 each year. Upon application, the individual must submit an assurance that the individual will use any credit approved by MHEC for the repayment of the individual's undergraduate or graduate student loan debt as soon as practicable. The total amount of the credit claimed must be recaptured if the individual does not use the credit for the repayment of the individual's student loan debt within two years from the close of the tax year for which the credit is claimed.

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.

State Revenues: As discussed above, the bill increases, from \$9 million to \$18 million, the maximum amount of student loan debt relief tax credits MHEC may approve annually. Thus, general fund revenues decrease by \$9 million annually beginning in fiscal 2024 due to additional credits claimed against the personal income tax. This estimate assumes that there is sufficient demand for the credit such that the increased maximum allowable amount of credits is fully utilized each year. As noted above, the estimated fiscal 2024 general fund revenue reduction is assumed in the fiscal 2024 budget.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 21, 2023
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