

Chapter 755

(Senate Bill 805)

AN ACT concerning

Income Tax – Student Loan Debt Relief Tax Credit – Alterations

FOR the purpose of altering certain provisions of law governing the recapture of certain amounts of the credit against the State income tax for certain individuals with student loan debt to require the recapture of the unused amount of the credit rather than the total amount; authorizing the Maryland Higher Education Commission to extend the period of time that an individual who claims the credit has to prove that the individual used the credit to repay the individual's student loan debt under certain circumstances; and generally relating to the Student Loan Debt Relief Tax Credit.

BY repealing and reenacting, with amendments,

Article – Tax – General

Section 10–740

Annotated Code of Maryland

(2022 Replacement Volume and 2025 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
That the Laws of Maryland read as follows:

Article – Tax – General

10–740.

(a) (1) In this section the following words have the meanings indicated.

(2) “Commission” means the Maryland Higher Education Commission.

(3) “Qualified taxpayer” means an individual who has:

(i) incurred at least \$20,000 in undergraduate or graduate student loan debt or both; and

(ii) has at least \$5,000 in outstanding undergraduate or graduate student loan debt or both when submitting an application under subsection (c) of this section.

(b) Subject to the limitations of this section, a qualified taxpayer may claim a credit against the State income tax for the taxable year in which the Commission certifies a tax credit under this section.

(c) (1) (i) By September 15 of each year, an individual shall submit an application to the Commission for the credit allowed under this section.

(ii) The individual shall submit with the application an assurance that the individual will use any credit approved under this section for the repayment of the individual's undergraduate or graduate student loan debt or both as soon as practicable.

(iii) 1. [The total] **EXCEPT AS PROVIDED IN SUBPARAGRAPH (IV) OF THIS PARAGRAPH, THE** amount of the credit claimed under this section **THAT WAS NOT USED TO REPAY THE INDIVIDUAL'S UNDERGRADUATE OR GRADUATE STUDENT LOAN DEBT** shall be recaptured if the individual does not use the **ENTIRE** credit approved under this section for the repayment of the individual's undergraduate or graduate student loan debt or both within 3 years from the close of the taxable year for which the credit is claimed.

2. The individual who claimed the credit shall pay the [total] **UNUSED** amount of the credit claimed as taxes payable to the State for the taxable year in which the event requiring recapture of the credit occurs.

(IV) THE COMMISSION MAY GRANT AN EXTENSION OF THE PERIOD WITHIN WHICH THE INDIVIDUAL IS REQUIRED TO USE THE CREDIT CLAIMED FOR THE REPAYMENT OF THE INDIVIDUAL'S UNDERGRADUATE OR GRADUATE STUDENT LOAN DEBT IF THE INDIVIDUAL WAS UNABLE TO REPAY THE STUDENT LOAN DEBT DUE TO:

1. **A PERIOD OF FORBEARANCE RELATED TO LITIGATION CONCERNING THE FEDERAL SAVING ON A VALUABLE EDUCATION (SAVE) STUDENT LOAN REPAYMENT PLAN;**

2. **THE INABILITY OF THE INDIVIDUAL TO CHANGE FROM ONE INCOME-BASED REPAYMENT PLAN TO ANOTHER PLAN DUE TO UNDERSTAFFING AT THE U.S. DEPARTMENT OF EDUCATION; OR**

3. **A PERIOD OF FORBEARANCE DURING WHICH THE INDIVIDUAL WAS AWAITING AN AGREEMENT UNDER THE FEDERAL PUBLIC SERVICE LOAN FORGIVENESS BUYBACK PROGRAM AND UNABLE TO MAKE ANY STUDENT LOAN DEBT PAYMENTS.**

(2) By December 15 of each year the Commission shall certify to the individual the amount of any tax credit approved by the Commission under this section, not to exceed \$5,000.

(3) (i) For tax year 2025, the total amount of tax credits approved by the Commission under this section may not exceed \$9,000,000.

(ii) For any taxable year after 2025, the total amount of tax credits approved by the Commission under this section may not exceed \$18,000,000.

(4) (i) Except as provided in subparagraph (ii) of this paragraph, the Commission shall reserve \$9,000,000 of the tax credits authorized under paragraph (3) of this subsection for the following individuals in the following order of priority:

1. State employees who graduated from institutions of higher education in the State where at least 40% of the attendees are eligible to receive federal Pell Grants; and

2. all other State employees not described under item 1 of this subparagraph.

(ii) If the total amount of tax credits applied for by individuals described under subparagraph (i) of this paragraph is less than \$9,000,000 for a taxable year, the Commission may make available the unused amount of credits for use by other qualified taxpayers.

(5) To claim the tax credit allowed under this section, an individual shall attach a copy of the Commission's certification of the approved credit amount to the income tax return.

(d) Subject to subsection (c)(4) of this section, the Commission shall prioritize tax credit recipients and amounts based on the following criteria:

(1) whether the qualified taxpayers are graduates from institutions of higher education in the State where at least 40% of the attendees are eligible to receive federal Pell Grants; and

(2) in an order of priority determined by the Commission, whether the qualified taxpayers:

(i) have higher debt burden to income ratios;

(ii) graduated from an institution of higher education located in the State;

(iii) did not receive a tax credit in a prior year; or

(iv) were eligible for in-State tuition.

(e) If the tax credit allowed under this section in any taxable year exceeds the total tax otherwise payable by the qualified taxpayer for that taxable year, the qualified taxpayer may claim a refund in the amount of the excess.

(f) The Commission shall establish and implement by September 1, 2024, an outreach and marketing plan to:

(1) make eligible taxpayers aware of the availability of the tax credit provided under this section; and

(2) 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 provided under this section.

(g) (1) On or before January 1 each year, the Commission shall report to the Governor and, in accordance with § 2–1257 of the State Government Article, the General Assembly on:

(i) the number of applicants for the tax credit authorized under this section;

(ii) the number and amounts of tax credits awarded under this section to qualified taxpayers;

(iii) a breakdown of the age, gender, race, income, and counties of residency of qualified taxpayers who receive the credit; and

(iv) any additional information that the Commission deems relevant.

(2) On or before January 1, 2026, the Commission shall report to the Governor and, in accordance with § 2–1257 of the State Government Article, the General Assembly recommendations for changes to statute or regulations that would better target the allocation of tax credits under this program.

(h) The Commission shall adopt regulations to carry out the provisions of this section.

(i) The tax credit under this section shall be referred to as the Student Loan Debt Relief Tax Credit.

SECTION 2. AND BE IT FURTHER ENACTED, That, on or before October 1, 2026, the Maryland Higher Education Commission shall adopt procedures by which an individual may apply for the waiver described under § 10–740(c)(1)(iv) of the Tax – General Article, as enacted by Section 1 of this Act.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2026, and shall be applicable to all taxable years beginning after December 31, 2025.

Approved by the Governor, May 26, 2026.