

SENATE BILL 805

Q3, F2

6lr2804
CF HB 1297

By: **Senator Hettleman**

Introduced and read first time: February 6, 2026

Assigned to: Budget and Taxation

Committee Report: Favorable

Senate action: Adopted

Read second time: March 4, 2026

CHAPTER _____

1 AN ACT concerning

2 **Income Tax – Student Loan Debt Relief Tax Credit – Alterations**

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

11 BY repealing and reenacting, with amendments,
12 Article – Tax – General
13 Section 10–740
14 Annotated Code of Maryland
15 (2022 Replacement Volume and 2025 Supplement)

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

18 **Article – Tax – General**

19 10–740.

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

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 (2) "Commission" means the Maryland Higher Education Commission.

2 (3) "Qualified taxpayer" means an individual who has:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 (i) have higher debt burden to income ratios;

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

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

7 (iv) were eligible for in-State tuition.

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

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

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

15 (2) encourage institutions of higher education in the State to advise new
16 graduates, particularly those with an interest in public service, of the availability of the tax
17 credit provided under this section.

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

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

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

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

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

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

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

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

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

9 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July
10 1, 2026, and shall be applicable to all taxable years beginning after December 31, 2025.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.