

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 805 (Senator Hettleman)
Budget and Taxation

Income Tax - Student Loan Debt Relief Tax Credit - Alterations

This bill modifies the student loan debt relief tax credit program by authorizing the Maryland Higher Education Commission (MHEC) to grant an extension of the period within which an individual must use the credit for repayment of eligible student loan debt under certain circumstances. By October 1, 2026, MHEC must adopt procedures by which an individual may apply for such a waiver. The bill also modifies provisions relating to credit recapture such that only the portion of the amount of credit claimed that is not used toward eligible student loan debt within the required three-year timeframe (subject to authorized extensions) must be recaptured, as opposed to the total amount of credit claimed. **The bill takes effect July 1, 2026, and applies to tax year 2026 and beyond.**

Fiscal Summary

State Effect: General fund revenues are potentially affected to the extent the bill precludes and/or delays the recapture of credits, as discussed below. It is assumed that MHEC can implement the bill with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: An individual may be eligible for extended time to use the credit toward eligible 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.

Current Law: An individual who has incurred at least \$20,000 in undergraduate and/or graduate student loan debt of which at least \$5,000 is outstanding may be eligible for the student loan debt relief tax credit, a refundable income tax credit of up to \$5,000. 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 three years from the close of the tax year for which the credit is claimed.

Chapter 738 of 2023 doubled, from \$9.0 million to \$18.0 million, the maximum amount of student loan debt relief tax credits MHEC may award annually for tax year 2023 and beyond and made various other modifications to the program. The Budget Reconciliation and Financing Act of 2025 (Chapter 604) reduced to \$9.0 million the maximum amount of credits MHEC may award for tax year 2025 and required MHEC to make recommendations to the Governor and the General Assembly on program changes to better target the allocation of tax credits.

State Revenues: The bill potentially decreases or delays general fund revenues to the extent it precludes or delays the recapture of student loan debt relief tax credits. Any such effect cannot be reliably predicted at this time.

Additional Information

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

Designated Cross File: HB 1297 (Delegate Palakovich Carr) - Ways and Means.

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

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