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Testimony in Support of HB 1297
Income Tax - Student Loan Debt Relief Tax Credit - Alterations

Maryland's Student Loan Debt Relief Tax Credit was designed to help borrowers make meaningful progress on their student debt. Yet, through no fault of their own, thousands of Marylanders are being penalized by a federal loan system in crisis. The U.S. Department of Education is sitting on a backlog of over 800,000 Income-Driven Repayment ("IDR") applications. Borrowers are falling into forced forbearance while litigation over the Saving on a Valuable Education ("SAVE") plan drags on. And the federal government's new Repayment Assistance Plan ("RAP") is restructuring repayment in ways that make it mathematically impossible for some borrowers to spend down their state tax credit within the required window.

Under our current law, a borrower who fails to use their full tax credit within the allotted period must repay the entire amount, rather than just the unused portion. For example, if a borrower spends \$950 of a \$1,000 credit because they were stuck in a federal forbearance, they owe the state the full \$1,000. This is not a sound economic policy; it is a trap ensnaring thousands of borrowers.

In response, HB 1297 fixes two issues. First, it converts the recapture rule from an all-or-nothing "claw back" to a prorated model. As a result, borrowers only repay what they did not use. In the previous example, the borrower would only have to pay \$50 instead of \$1,000. Second, the bill gives the Maryland Higher Education Commission the authority to extend the spend-down period for borrowers caught in SAVE litigation, the IDR backlog, or a Public Service Loan Forgiveness ("PSLF") buyback delay, thereby giving them vital time to use their tax credit before losing it.

The bottom line is that nobody should be punished for pursuing an education. The federal loan fiasco is not the fault of borrowers and these circumstances are entirely outside their control. As such, borrowers should not be held accountable for federal dysfunction. This bill simply ensures that Maryland's tax credit program does not place additional burdens on borrowers already reeling from the disorder of their loan repayment programs.