

# SENATE BILL 805

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By: **Senator Hettleman**

Introduced and read first time: February 6, 2026

Assigned to: Budget and Taxation

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## A BILL ENTITLED

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; providing that, notwithstanding a certain provision of law, the  
10 Commission may certify for a certain taxable year a total amount of tax credits that  
exceeds a certain amount; and generally relating to the Student Loan Debt Relief Tax  
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.

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

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

2     **REPRINT OF SENATE BILL 805 as amended by SB0805/333026/1     03/11/26 at 3:47 PM**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5     **REPRINT OF SENATE BILL 805 as amended by SB0805/333026/1   03/11/26 at 3:47 PM**

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

SECTION 3. AND BE IT FURTHER ENACTED, That, notwithstanding § 10-740(c)(3)(i)  
of the Tax – General Article, the total amount of tax credits approved by the  
Maryland Higher Education Commission for tax year 2025 under § 10-740 of the Tax –  
General Article, as enacted by Section 1 of this Act, may exceed \$9,000,000.

5           SECTION ~~3~~ 4. AND BE IT FURTHER ENACTED, That this Act shall take effect July  
6 1, 2026, and Section 1 of this Act shall be applicable to all taxable years beginning after  
December 31, 2025.