

SHELLY HETTLEMAN
Legislative District 11
Baltimore County

Budget and Taxation Committee

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Joint Audit and Evaluation
Committee



James Senate Office Building
11 Bladen Street, Room 220
Annapolis, Maryland 21401
410-841-3131
800-492-7122 Ext. 3131
shelly.hettleman@senate.maryland.gov

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

TESTIMONY OF SENATOR SHELLY HETTLEMAN
SB 805 - 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 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 only 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, Senate Bill 805 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. So, in the previous example, the borrower would only have to pay \$50 instead of \$1000. 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. To be clear, SB 805 does not give anyone a windfall. Instead, it 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. Thank you for your consideration of Senate Bill 805.