

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 860 (Delegate Kramer, *et al.*)
 Ways and Means

Income Tax Credit - Individuals Working in STEM Fields - Student Loan
 Payments

This bill creates a tax credit against the State income tax for an individual who (1) has student loan debt incurred to attend an institution of higher education and (2) is employed full-time in specified Science, Technology, Engineering, or Mathematics (STEM) fields by a Maryland-based employer. The Department of Commerce (Commerce) and the Maryland Higher Education Commission (MHEC) must jointly review tax credit applications based on specified criteria. The total amount of credits awarded in each tax year cannot exceed the amount of funds appropriated to the program in the State budget. **The bill takes effect July 1, 2018, and applies to tax year 2018 and beyond.**

Fiscal Summary

State Effect: General fund expenditures may increase by \$5.0 million beginning in FY 2019 due to appropriations to the reserve fund established by the bill. Administrative costs at the Comptroller’s Office and MHEC may increase by \$369,300 in FY 2019. Future years reflect ongoing operating expenditures and reserve fund appropriations. Revenues are not affected.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	5.4	5.3	5.3	5.3	5.3
Net Effect	(\$5.4)	(\$5.3)	(\$5.3)	(\$5.3)	(\$5.3)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The tax credit may be awarded to an individual who applies to Commerce and who (1) graduated from an accredited institution of higher education with an associate, bachelor's, graduate, or postgraduate degree and has outstanding student loan debt incurred from attending the institution; (2) is employed full-time by a Maryland-based employer at a work location in the State; and (3) works in the following fields – advanced mathematics or finance; computer, information, or software technology; engineering; industrial design; life, natural, or environmental sciences; or medicine or medical device technology.

The credit may not exceed the tax liability imposed in the tax year; any unused amount can be carried forward to future tax years until the full amount of the excess is claimed. The value of the credit also may not exceed the amount of student loan payments made in the tax year. The maximum value of the tax credit depends on the degree attained by the individual and may not exceed \$1,000 (associate), \$4,000 (bachelor's), or \$6,000 (graduate or postgraduate). An individual who received a tax credit in each of the three prior calendar years is not eligible for the credit.

By December 1 of each year, an individual must submit an application to Commerce for the credit. Commerce must certify the amount of the credit by December 31.

MHEC and Commerce must jointly review applications and must prioritize tax credit recipients based on qualified taxpayers who:

- have higher debt burden to income ratios;
- graduated from an institution of higher education located in the State;
- did not receive a tax credit in a prior year; or
- were eligible for in-state tuition.

Commerce and MHEC must award at least 70% of tax credits to applicants whose student loans were incurred to attend an institution of higher education in the State.

The bill creates a reserve fund which consists of money appropriated for the fund in the State budget. The amount of credits that may be awarded in each tax year cannot exceed the amount of money in the fund. Commerce must (1) solicit partnerships with and donations to the fund from private businesses and (2) adopt regulations to implement the program.

Current Law: Certain interest paid on student loans may qualify for a federal income tax deduction. Maryland generally conforms to federal tax law, so any amount deducted under federal law flows through for Maryland income tax purposes. Section 221 of the Internal

Revenue Code allows a deduction of up to \$2,500 of the student loan interest paid during the year on a qualified student loan. A taxpayer is not required to itemize deductions in order to claim the deduction. The deduction begins to phase out for taxpayers with modified adjusted gross income in excess of \$65,000 (\$130,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income of \$80,000 or more (\$160,000 or more for joint returns).

In addition, individuals may qualify for the student loan debt relief tax credit as discussed below.

Background:

Student Loan Debt Relief Tax Credit

Chapters 689 and 690 of 2016 established the student loan debt relief tax credit, a refundable income tax credit of up to \$5,000. By September 15 of each year, an individual must submit an application to MHEC. In order to qualify, an individual must have incurred at least \$20,000 in undergraduate student loan debt and have at least \$5,000 in outstanding undergraduate student loan debt at the time of application.

In the first year of the program, calendar 2017, MHEC received 4,988 applications, of which 4,422 qualified for the program. MHEC awarded a tax credit of \$1,201 to each of the 2,881 applicants who qualified for in-state tuition (a total of \$3.5 million in credits) and a tax credit of \$1,000 to the other 1,541 applicants (\$1.5 million in credits). Individuals had an average student loan debt level of \$40,207.

MHEC advises that of the 83,142 individuals who earned a degree from a Maryland institution of higher education from December 2014 through December 2015, a total of 8,723 are employed in a STEM field. Of these individuals, 4,517 are Maryland residents and have taken out at least one student loan during their academic career, as shown in **Exhibit 1**.

Exhibit 1
Maryland Institution of Higher Education Graduates
Currently Employed in STEM Field and Received Student Loan Funds
December 2014-December 2015

Employed in STEM Fields

<u>Degree</u>	<u>Total Graduates</u>	<u>Total</u>	<u>With Student Loans¹</u>
Associate	18,151	1,986	1,210
Bachelors	39,655	4,451	2,774
Masters	22,263	2,094	440
PhD	3,073	192	93
Total	83,142	8,723	4,517

STEM: Science, Technology, Engineering, or Mathematics

¹Includes only Maryland residents

State Expenditures: General fund expenditures may increase by \$5.0 million annually beginning in fiscal 2019 due to appropriations to the Student Loan Reimbursement Tax Credit Fund. Administrative costs at the Comptroller’s Office and MHEC may increase by \$369,300 in fiscal 2019 and by \$329,700 in fiscal 2023.

Student Loan Reimbursement Tax Credit Fund

Tax credits may be claimed beginning in tax year 2018. The amount of credits that may be awarded in each tax year cannot exceed the amount of money in the reserve fund. The bill does not require the Governor to include an appropriation to the reserve fund or suggest an amount. Accordingly, general fund expenditures will increase based on the amount of funds appropriated to the program, if any, in each year.

Based on the estimated number of eligible graduates over the time period described above and demand for the existing student loan debt relief tax credit, general fund expenditures may increase by \$5.0 million annually beginning in fiscal 2019. To the extent that the Governor provides less or no money to the reserve fund in any year, the increase in general fund expenditures will be less. However, there is no limit on the amount that can be appropriated to the reserve fund.

Maryland Higher Education Commission

MHEC requires additional staff to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$316,300 in fiscal 2019. This estimate reflects the cost of hiring four staff to certify tax credits and perform related tasks beginning July 1, 2018. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4
Salaries and Fringe Benefits	\$294,210
Other Operating Expenses	<u>22,060</u>
Total FY 2019 Expenditures	\$316,270

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

Comptroller's Office

The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$53,000 in fiscal 2019 to add the checkoff to personal income tax forms. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Department of Legislative Services

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