

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 413 (Senator Kramer, *et al.*)
 Budget and Taxation

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 incurred student loan debt 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 \$1.0 million. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund expenditures may increase by \$1.0 million beginning in FY 2021 due to appropriations to the reserve fund established by the bill. Administrative costs for State agencies may increase by \$320,200 in FY 2021. Future year estimates reflect ongoing operating expenditures and reserve fund appropriations. Revenues are not affected.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1.3	1.2	1.2	1.3	1.3
Net Effect	(\$1.3)	(\$1.2)	(\$1.2)	(\$1.3)	(\$1.3)

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 prioritize tax credit recipients based on qualified applicants 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 year may not exceed \$1.0 million. 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. In tax year 2019, the deduction begins to phase out for taxpayers with modified adjusted gross income in excess of \$70,000 (\$140,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income of \$85,000 or more (\$170,000 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

The Student Loan Debt Relief Tax Credit established a refundable tax credit of up to \$5,000 for qualified student loans to Maryland residents beginning in tax year 2017. Qualifying taxpayers must have had at least \$20,000 in total undergraduate student loan debt and have a remaining balance of at least \$5,000, and recipients must use the credit within two years to pay down the student loan. MHEC was initially authorized to approve \$5.0 million of tax credits annually. Chapter 382 of 2018 expanded the types of qualifying debt to include debt incurred for graduate school, and Chapter 419 of 2018 increased the total amount of credits that can be awarded to \$9.0 million annually. MHEC awarded the maximum amount of credits for tax year 2019.

STEM Graduates

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 Fields and Received Student Loan Funds
December 2014 to December 2015

<u>Degree</u>	<u>Total Graduates</u>	<u>Employed in STEM Fields</u>	
		<u>Total</u>	<u>With Student Loans¹</u>
Associate	18,151	1,986	1,210
Bachelor's	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 \$1.0 million annually beginning in fiscal 2021 due to appropriations to the student loan reimbursement tax credit fund. Administrative costs at the Comptroller's Office, Commerce, and MHEC may increase by \$320,200 in fiscal 2021 and by \$264,200 in fiscal 2025.

Student Loan Reimbursement Tax Credit Fund

The bill creates a reserve fund which consists of money appropriated for the fund in the State budget. As a result, general fund expenditures will increase by \$1.0 million annually beginning in fiscal 2021. This estimate assumes that the fund receives the maximum tax credit funding that can be awarded in each year. To the extent the Governor provides less or no money to the reserve fund in any year, the increase in general fund expenditures will be less.

Commerce

Commerce requires one program administrator and one administrative aide to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$186,800 in fiscal 2021, which reflects the cost of hiring two staff to certify tax credits and perform related tasks beginning July 1, 2020. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$176,414
Other Operating Expenses	<u>10,340</u>
Total FY 2021 Expenditures	\$186,754

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

Maryland Higher Education Commission

MHEC requires one program administrator to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by \$77,500 in fiscal 2021. This estimate reflects the cost of hiring the administrator to certify tax credits and perform related tasks beginning July 1, 2020. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salaries and Fringe Benefits	\$71,929
Other Operating Expenses	<u>5,525</u>
Total FY 2021 Expenditures	\$77,454

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 \$56,000 in fiscal 2021 to add the tax credit to personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: Similar legislation was introduced in the 2018 and 2019 sessions. SB 244 of 2019 received a favorable with amendments report from the Senate Budget and Taxation Committee, passed the Senate, and received a hearing in the House Ways and Means Committee, but no further action was taken. HB 860 of 2018 received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

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

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mm/jrb

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