

**TESTIMONY OF  
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation  
Hearing Date: April 27, 2021

- LD 798 – “*An Act To Improve the Educational Opportunity Tax Credit*”  
LD 973 – “*An Act Regarding the Educational Opportunity Tax Credit*”  
LD 977 – “*An Act Regarding the Maine Educational Opportunity Tax Credit*”  
LD 1410 – “*An Act To Incentivize the Development of the Labor Force in the  
Green Jobs Sector through Assistance in Repaying Student Loan Debt*”  
LD 1458 – “*An Act To Expand Incentives To Live and Work in Maine through a  
Partial Tax Credit for Certain Student Loans*”

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Senator Chipman, Representative Terry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am providing testimony at the request of the Administration Neither For Nor Against LD 798, “*An Act To Improve the Educational Opportunity Tax Credit,*” LD 973, “*An Act Regarding the Educational Opportunity Tax Credit,*” and LD 977, “*An Act Regarding the Maine Educational Opportunity Tax Credit,*” and against LD 1410, “*An Act To Incentivize the Development of the Labor Force in the Green Jobs Sector through Assistance in Repaying Student Loan Debt*” and LD 1458, “*An Act To Expand Incentives To Live and Work in Maine through a Partial Tax Credit for Certain Student Loans.*”

All five of these bills relate to the Education Opportunity Tax Credit (also known as “Opportunity Maine” and the “EOTC”) – an important income tax credit for the State of Maine and an action item in the 10-year Economic Development Strategy. The credit provides refundable and non-refundable tax benefits for

college debt repayments for recent college graduates who live and work in Maine. While the credit has received significant national and international press attention in recent years for being a powerful and compelling tool, the calculations for the credit are very complex and depend on what year you went to school, what you majored in and whether that qualifies as a STEM degree, where you went to school, whether loans have been consolidated, periods of employment, etc. The credit should be simplified in order to successfully drive the decisions and actions of both those moving to and staying in Maine, and in the process, be made available to more people. College loan help is a major incentive for young people to work in Maine.

This is a tool all employers should be able to use to attract workers as well. However, our discussions in the past with members of the business community clearly indicates that that the credit as it currently stands is not an effective recruiting tool because it is too complicated for employers to accurately determine a prospective employee's eligibility for the credit. A chart prepared by MRS illustrating the many requirements of the credit and how they have varied over the years follows this testimony.

### **LD 798, "An Act To Improve the Educational Opportunity Tax Credit"**

LD 798 makes a number of changes to the EOTC, expanding the credit, sunseting refundability, and, in many ways, simplifying the credit. These changes would reduce ambiguity associated with the current credit program for taxpayers and ease administrative difficulties relative to processing affected tax returns. However, further simplifications are possible and worth pursuing.

Importantly, one aspect of the bill, a new credit limit equal to 15% (20% for the employer credit) of the outstanding eligible education loan debt on the date the

first education loan payment is made after a degree is earned, would add significant complexity. Because making the credit more user-friendly is key to making it more effective, a flat dollar limit should be considered.

### **LD 973 “An Act Regarding the Educational Opportunity Tax Credit”**

LD 973 changes the EOTC by allowing credits claimed to include: 1) loan amounts paid by April 1, 2021, if due during tax year 2020; 2) loan amounts paid by December 21, 2021, if due during tax year 2021; and for tax years beginning on or after January 1, 2022, 3) loan amounts paid during the tax year prior to the due date, for loan amounts due during the tax year; and 4) catch-up loan amounts paid during the first two years of participation in the program, if due during those two tax years.

Some components of LD 973 are unnecessary. For instance, taxpayers may currently claim all loan amounts paid during the tax year for loan amounts due during the tax year, including lump-sum payments made prior to the due date. Other components of the bill require further clarification as to when payments can be made and to which tax year they will apply. Staff from Maine Revenue Services can address the technical issues more fully at the work session.

Importantly, LD 973 would add complexity to the program and result in taxpayer confusion and increased administrative burden relative to eligible education loans, including verifying when loan amounts were due, when paid, what tax year the payments may be included for claiming of the credit, and whether the loan amounts have been claimed for multiple tax years.

### **LD 977 “An Act Regarding the Maine Educational Opportunity Tax Credit”**

LD 977 expands the EOTC to qualified individuals who have obtained an associate or bachelor's degree from an accredited non-Maine community college, college, or university after December 31, 2011 or a graduate degree from an accredited Maine college or university after December 31, 2011.

Currently, a qualified individual for the EOTC must have obtained an associate or bachelor's degree from an accredited Maine community college, college, or university after December 31, 2007; an associate or bachelor's degree from an accredited non-Maine community college, college, or university after December 31, 2015; or a graduate degree from an accredited Maine college, or university after December 31, 2015.

While the new criteria are not more complicated than the existing ones, changing the criteria adds its own complexity. For that reason, expanding the program should be paired with simplifications to the program. For instance, and by comparison, LD 798 removes the degree received date entirely, and the related complexity, instead of shifting it.

**LD 1410 – “An Act To Incentivize the Development of the Labor Force in the Green Jobs Sector through Assistance in Repaying Student Loan Debt”**

**LD 1458 – “An Act To Expand Incentives To Live and Work in Maine through a Partial Tax Credit for Certain Student Loans”**

Both LDs 1410 and 1458 create new student loan income tax credits – but are addressed here in this combined testimony because there is substantial overlap between the new credit proposed by LD 1410 and the existing EOTC. Both bills raise important technical concerns that staff from MRS can describe in full at the Work Session.

The EOTC is an important component of the 10-year Economic Development Strategy and should be the primary tax benefit for student loan relief. The addition of another student loan credit will only make an extremely complex tax issue even more complex. Instead, simplifying the current EOTC would be a better approach to assisting taxpayers in paying their student loans and attracting workers to the state.

The Department strongly supports simplifying the EOTC to make it more effective for employees and employers.

The preliminary fiscal impact of these bills is not available at this time. The preliminary administrative costs for LDs 973 and 977 are not available at this time. Administrative costs associated with LD 798 are nominal and can be absorbed within current budgetary allotments. The preliminary administrative cost of LD 1410 is estimated to be \$116,955 during FY 2021-22 and \$199,812 during FY 2022-23 for computer programming to add a line for the credit to the individual income tax return and two new Tax Examiner II positions to audit a portion of the affected returns. The preliminary administrative cost of LD 1458 is estimated to be \$11,000 during FY 2022-23 for computer programming to add a line to the individual income tax return. Based on the number of affected taxpayers, additional costs may be required relative to auditing affected returns and validating credits claimed.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.

**Educational Opportunity Tax Credit**  
**Eligibility Guidelines by Tax Year**  
**Credit for Individuals**

**Note:** The credit may only be calculated for the number of months during the tax year for which the required loan payment was paid.

|  | Tax Year: |      |      |      |      |      |      |      |      |      |      |      |                 |
|--|-----------|------|------|------|------|------|------|------|------|------|------|------|-----------------|
|  | 2008      | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020            |
| <b>Requirements:</b>   |           |      |      |      |      |      |      |      |      |      |      |      |                 |
| <b>RESIDENCY</b>   |           |      |      |      |      |      |      |      |      |      |      |      |                 |
| Maine resident during tax year   | X         | X    | X    | X    | X    | X    | X    | X    | X    | X    | X    | X    | X               |
| Maine resident while attending Maine college   | X         | X    | X    | X    | X    | X    | X    | X    |      |      |      |      |                 |
| <b>EMPLOYMENT</b>  |           |      |      |      |      |      |      |      |      |      |      |      |                 |
| Work for employer located in Maine   | X         | X    | X    | X    | X    | X    | X    |      |      |      |      |      |                 |
| Work for employer located in Maine unless deployed for military service  |           |      |      |      |      | X    | X    |      |      |      |      |      |                 |
| Must work in Maine (except, may work outside Maine for up to 3 months OR deployed for military service)                            |           |      |      |      |      |      |      | X    | X    | X    | X    | X    | COVID Exclusion |
| Must work in Maine (except, may work outside Maine for up to 3 months OR work at least part-time on a vessel at sea)               |           |      |      |      |      |      |      |      | X    | X    | X    | X    | COVID Exclusion |
| Self-employed eligible in Maine  |           |      |      |      |      |      |      | X    | X    | X    | X    | X    | X               |
| <b>DEGREE'S EARNED</b>   |           |      |      |      |      |      |      |      |      |      |      |      |                 |
| Earned associate's degree or bachelor's degree from an accredited Maine community college, college or university <b>after 2007</b> | X         | X    | X    | X    | X    | X    | X    | X    | X    | X    | X    | X    | X               |
| <b>OR</b>  |           |      |      |      |      |      |      |      |      |      |      |      |                 |
| Earned non-Maine associate's degree or bachelor's degree <b>after 2015</b>   |           |      |      |      |      |      |      |      | X    | X    | X    | X    | X               |

| OR   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Earned Maine graduate degree <b>after 2015</b>   |   |   |   |   |   |   |   |   |   | X | X | X | X | X |
| 100% of coursework toward degree <b>after 2007</b> performed at Maine community college, college or university   | X | X | X | X | X |   |   |   |   |   |   |   |   |   |
| Allow up to 30 credit hours <b>earned after 2007</b> at non-Maine college if transfer to Maine college occurred <b>after 2012</b>  |   |   |   |   |   | X | X | X |   |   |   |   |   |   |
| Allow all Maine and non-Maine coursework completed <b>after 2007</b>   |   |   |   |   |   |   |   |   |   | X | X | X | X | X |
| Student Opportunity Contract Required  | X | X |   |   |   |   |   |   |   |   |   |   |   |   |
| STUDENT LOANS  |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Loans for coursework (for degree program) performed <b>after 2007</b>  | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Loan term minimum of 8 years   | X | X | X | X | X |   |   |   |   |   |   |   |   |   |
| Allow refinanced or consolidated loans only when refinanced or consolidated with other eligible loans  | X | X | X | X | X | X | X |   |   |   |   |   |   |   |
| Allow refinanced or consolidated loans when eligible loans refinanced or consolidated with other education loans in proportion to the portion of loan payments that are eligible |   |   |   |   |   |   |   | X | X | X | X | X | X | X |
| Allow credit for payments made while loan is in forbearance or deferral status   |   |   |   |   |   |   |   |   |   |   |   |   |   | X |
| REFUNDABILITY  |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Credit nonrefundable   | X | X | X | X | X |   |   |   |   |   |   |   |   |   |
| STEM degrees refundable (associate, bachelor's)  |   |   |   |   |   | X | X | X | X | X | X | X | X | X |
| ALL associate degrees refundable   |   |   |   |   |   |   |   |   |   | X | X | X | X | X |

Timing and Proration Issues:

- 1) Tax Year
  - a) Loan payments paid
  - b) Consolidated loans
  - c) Multiple degrees earned
- 2) When the degree is earned
  - a) Transfer and pre-2008 credits
  - b) Year of transfer

Prepared by: Maine Revenue Services, Income / Estate Tax Division

Updated: 03/10/2021