

MEMO

DATE: May 9, 2025

TO: Government Oversight Committee

FROM: OPEGA Staff

RE: GOC Action on Tax Expenditure Up Next for Parameter Establishment

Proposal to Delay Student Loan Repayment Tax Credit Evaluation until at least 2027

Enclosed is OPEGA's proposal to delay the Student Loan Repayment Tax Credit Evaluation until at least 2027. Information discovered in background research on this expenditure has prompted OPEGA to propose the full evaluation wait until 2027 to allow more credit data to accumulate.

We propose that:

- the Student Loan Repayment Tax Credit is moved from "up next" to eighth on the list of future reviews, after the Deduction for Social Security Benefits Taxable at the Federal Level (the currently approved review schedule is attached).

Additional detail about the credit and OPEGA's rationale for this proposal are on the following page.

Committee Process

A Committee vote on these proposals is needed if the Committee would like OPEGA to take action to reorder the tax expenditure review schedule:

- Draft Motion Language: The Committee moves to [accept the proposal as written/accept the proposal with the following amendment...]

Student Loan Repayment Tax Credit

Program Description

Statutory Reference: 36 MRS §5217-E
Enactment: 2022
Sunset: No Sunset
GF Revenue Loss Estimate: \$74.8M FY26, \$77.8M FY27
Administering Agency: MRS
Taxpayers Impacted: Approximately 26,000 in tax year 2023

- This is a refundable income tax credit for qualified individuals for payments made on eligible student loans during the tax year.
- The credit is equal to 100% of student loan payments for eligible loans up to \$2,500 a year.
- There is a lifetime cap per individual of \$25,000.
- Qualified individuals are Maine residents who obtained a postsecondary degree after 2007 and have met income earning requirements for the year.¹
- The credit replaces the education opportunity (EOTC) tax credit. The EOTC had a more limited pool of potential recipients—degrees needed to be obtained from Maine colleges and university and needed to be in specific STEM subject areas.
- The credit began in 2022, with the first tax filings in 2023.²

Proposed Evaluation Delay until at least 2027

Given the first year that the credit was claimed was 2023, there are only two years of data available at present to understand credit performance. In addition, changes in related federal student loan policy in recent years make it harder to see the effect of state policy on credit claimants.

Providing more time will not provide more clarity about how the transition from the EOTC to the SLRTC impacted credit usage at the state level because of the confounding federal factors. However, allowing at least five years of program data to accumulate will provide a fuller picture of how the SLRTC has been used since implementation and the state level impacts from its usage. As such, OPEGA proposes delaying this evaluation until at least 2027.

¹ An individual must have earned wages of at least the minimum wage multiplied by 936 hours for the year. This means that the individual would have worked at least 45% of standard working hours calculated based on a 40-hour work week for 52 weeks (2,080 working hours).

² LD 1574 “An Act to Amend the Credit for Educational Opportunity and Student Loan Repayment Tax Credit” was voted OTP-AM by the Taxation Committee of the 132nd Legislature and would allow student borrowers to carryforward amounts in excess of the annual maximum tax credit starting in 2026. Whether or not the bill ultimately is enacted does not impact OPEGA’s proposal for an evaluation delay.