

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

Before the Joint Standing Committee on Taxation
Hearing Date: *April 16, 2025*

LD 1574 – “*An Act to Amend the Credit for Educational Opportunity and Student
Loan Repayment Tax Credit*”

Senator Grohoski, Representative Cloutier, 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 testifying at the request of the Administration Against LD 1574, “*An Act to Amend the Credit for Educational Opportunity and Student Loan Repayment Tax Credit.*”

This bill would eliminate the carry forward of unused educational opportunity tax credit (EOTC) from the calculation of the student loan repayment tax credit (SLRTC) amount allowed for tax years beginning after 2025 (currently allowed to be carried forward through tax year 2026). For tax years beginning on or after January 1, 2026, the bill also proposes to allow qualified individuals with unused carryover credits to carry over and apply the portion of unused credits to the SLRTC.

The bill summary indicates that the intent of the bill is to allow early payments of eligible student loans that may be applied to the maximum SLRTC and to carry the relevant credit forward each year until entirely depleted. However, the bill language does not clearly implement this intent.

For tax years beginning on or after January 1, 2022, the EOTC was replaced by the SLRTC. Currently, the refundable SLRTC is equal to the amount of

education loan payments made by the individual directly to the lender during the tax year plus, for tax years beginning on or after January 1, 2022, and before January 1, 2027, any amount of unused EOTC carried forward from prior tax years that does not exceed the 10-year carry forward limit. The credit is limited to \$2,500 annually, up to \$25,000 lifetime, per taxpayer.

The EOTC program was replaced by the SLRTC program to eliminate ambiguity associated with the program for taxpayers, including allowing consistent refundability for all qualified individuals and eliminating carry forward of unused credits, as well as to ease the compliance and administrative difficulties relative to preparing and processing credit claims. The SLRTC is much less complicated than the EOTC and this simplicity has made the program more accessible to taxpayers and easier to administer, in short it has been working well since it became effective in 2022.

The SLTRTC is a unique and generous credit and changes to the credit should be carefully considered.

The Administration also notes the following technical concerns:

- Section 1 of the bill is unnecessary and should be removed. 36 MRSA § 5217-D(2)(B) applies only to tax years beginning before January 1, 2022.
- Section 2 of the bill is unclear, and does not accomplish the changes described in the bill summary.

The full fiscal impact estimate is not available at this time, but according to preliminary estimates the bill would cost approximately \$3-\$4 million dollars even if borrowers do not change their repayment behavior in response to the bill.

Notably, this assessment is based on one interpretation of the purpose of the bill.

The preliminary estimated administrative costs are under review. However, computer programming costs will be required to accommodate the carry forward of unused credits.

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.