

MAINE STATE LEGISLATURE

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123rd MAINE LEGISLATURE

FIRST REGULAR SESSION-2007

Legislative Document

No. 948

S.P. 299

March 1, 2007

An Act To Provide Relief to Maine Residents from Postsecondary Tuition Costs

Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "Joy J. O'Brien".

JOY J. O'BRIEN
Secretary of the Senate

Presented by Senator DAMON of Hancock.

Cosponsored by Representative PINGREE of North Haven and

Senators: BRYANT of Oxford, President EDMONDS of Cumberland, MARTIN of Aroostook,
MITCHELL of Kennebec, PERRY of Penobscot, STRIMLING of Cumberland,

Representatives: FAIRCLOTH of Bangor, MARLEY of Portland.

1 **Be it enacted by the People of the State of Maine as follows:**

2 **PART A**

3 **Sec. A-1. 20-A MRSA c. 428-C** is enacted to read:

4 **CHAPTER 428-C**

5 **COLLEGE FOR ALL MAINE PROGRAM**

6 **§12541. Definitions**

7 As used in this chapter, unless the context otherwise indicates, the following terms
8 have the following meanings.

9 **1. Accredited Maine college or university.** "Accredited Maine college or
10 university" includes:

11 A. Any community college, 4-year college, university or other educational institution
12 that is located in the State and has authorization to confer an associate, bachelor's,
13 master's or doctorate degree, in accordance with sections 10704 and 10704-A;

14 B. Any educational institution that is located in the State and is exempt from chapter
15 409 under section 10708, subsections 1 and 2; and

16 C. Any educational institution that is located in the State and is operating under a
17 license or certificate of temporary approval from the state board under section 10703.

18 **2. CFAME or the program.** "CFAME" or "the program" means the College For
19 All Maine program established in section 12542.

20 **3. CFAME contract.** "CFAME contract" means the contract described in section
21 12542, subsection 3.

22 **4. CFAME participant.** "CFAME participant" means an individual who enters into
23 a CFAME contract with the State, obtains the specified degree and complies with the
24 requirements under section 12542, subsections 3 to 5.

25 **5. CFAME tax credit.** "CFAME tax credit" is the tax credit provided for in Title
26 36, section 5217-D.

27 **6. Educational institution.** "Educational institution" has the same meaning as in
28 section 10701, subsection 3.

29 **7. Eligible education costs.** "Eligible education costs" means the sum of tuition and
30 mandatory fees paid after the effective date of this section by a CFAME participant to an
31 accredited Maine college or university for course work required to obtain the associate,
32 bachelor's, master's or doctorate degree earned by the participant.

1 **8. Maine resident.** "Maine resident" means an individual who qualifies for Maine
2 residence under the terms of Title 21-A, section 112.

3 **9. Principal cap.** "Principal cap" means the maximum amount of student loan
4 principal that can qualify for a CFAME tax credit as set forth in section 12542, subsection
5 2, paragraph A.

6 **§12542. Program established**

7 **1. Program goals.** The College For All Maine program is established to reimburse
8 eligible education costs for Maine residents who obtain an associate, bachelor's, master's
9 or doctorate degree in Maine and thereafter live, work and pay taxes in the State. The
10 program is designed to achieve the following goals:

11 A. To promote economic opportunity for Maine people by ensuring access to the
12 training and higher education that high-paying jobs require;

13 B. To bring more high-paying jobs to Maine by increasing the skill level of Maine's
14 workforce;

15 C. To offer opportunity for education and retraining to individuals affected by job
16 loss, disability or global outsourcing;

17 D. To keep Maine's young people in the State by providing tax credits equal to the
18 cost of attending college in Maine and through creation of more high-paying jobs;

19 E. To create many high-paying jobs in Maine's community colleges, 4-year colleges
20 and universities and surrounding communities by increasing enrollment and funding
21 new campus jobs with the federal student loan proceeds produced by additional
22 students; and

23 F. To accomplish the goals set forth in this subsection with as little bureaucracy as
24 possible and minimal administrative costs and without raising taxes.

25 **2. Principal cap.** The principal cap determines a lifetime limit on the student loan
26 principal one individual may claim as a CFAME tax credit.

27 A. Except as provided in paragraph C, the principal cap is equal to the lowest of the
28 following amounts:

29 (1) The eligible educational costs incurred by the CFAME participant and paid
30 for with the proceeds of a student loan;

31 (2) \$16,000 for participants obtaining one or more associate degrees;

32 (3) \$40,000 for participants obtaining one or more bachelor's degrees; and

33 (4) \$20,000 for participants obtaining one or more master's or doctorate degrees.

34 Participants earning both an associate degree and a bachelor's degree have a
35 combined principal cap of \$40,000 for the 2 degrees. Participants earning both a
36 master's degree and a doctorate degree have a combined principal cap of \$20,000 for
37 those 2 degrees but may also claim credit for loans related to obtaining a bachelor's
38 degree subject to the separately calculated principal cap for the bachelor's degree.

1 B. The financial aid office of each accredited Maine college or university attended
2 by a CFAME participant shall calculate, once the participant has earned a degree, the
3 amount of student loan proceeds the CFAME participant spent on eligible education
4 costs. This amount must be listed on an addendum attached to the participant's
5 CFAME contract.

6 C. Maine residents who are enrolled in a degree program prior to the effective date
7 of this subsection or who sign a CFAME contract after completing some
8 requirements for a degree may participate in the program subject to the same terms as
9 other program participants, except that, when an already-enrolled individual signs a
10 CFAME contract, the contract must specify the percentage of the individual's course
11 work completed in pursuit of the degree that was performed before the individual was
12 participating in the program. The CFAME principal cap must be calculated as the
13 lower of:

14 (1) The eligible education costs incurred by the participant; and

15 (2) The appropriate amount under paragraph A, subparagraph (2), (3) or (4)
16 multiplied by the percentage of course work completed after the participant
17 signed the CFAME contract.

18 **3. CFAME contract.** The state board shall draft a CFAME contract for use in
19 enrolling individuals in the program. The terms of the CFAME contract must be as
20 follows.

21 A. An individual who wishes to participate in the program must certify that the
22 individual is a Maine resident.

23 B. The individual must agree to attend and to attempt to earn an associate's,
24 bachelor's, master's or doctorate degree from an accredited Maine college or
25 university. The individual need not obtain the degree from the institution in which the
26 individual originally enrolled, as long as all course work toward the degree is
27 performed at an accredited Maine college or university.

28 C. The individual must agree to live in Maine after obtaining the degree for any
29 period during which the individual seeks to take advantage of the CFAME tax credit.

30 D. The individual must agree to maintain records relating to all student loans
31 received and all loan payments claimed under the CFAME tax credit for 5 years after
32 those payments are claimed.

33 E. With respect to education loans, the individual must agree to the following:

34 (1) The individual will claim the CFAME tax credit only for student loans that
35 are part of the individual's financial aid package and that have monthly payments
36 for a term of at least 8 years;

37 (2) If the individual in any way accelerates repayment of CFAME-certified loans,
38 the individual may not claim a CFAME tax credit for the early student loan
39 payments until the year that the payment was originally due; and

40 (3) The individual may refinance CFAME certified loans only if the loans remain
41 separate from other debt and if the effect of the refinancing is to decrease both
42 the annual repayment and the effective interest rate.

1 F. In exchange for the considerations outlined in paragraphs B to E, the State shall
2 agree to permit the individual to take advantage of the CFAME tax credit.

3 G. The CFAME contract form must leave space for one or more accredited Maine
4 colleges or universities to certify that the individual has obtained a degree and to
5 certify the amount of student loan funds the CFAME participant used to pay for
6 eligible education costs at the educational institution.

7 **4. Administration.** The program must be administered as follows.

8 A. A Maine resident who gains admission to an accredited Maine college or
9 university and who receives financial aid in the form of loans may participate in the
10 program. The financial aid office of the educational institution shall offer to such
11 individuals the opportunity to sign a CFAME contract with the State. The financial
12 aid office shall retain the contract until the individual obtains a degree or transfers to
13 another accredited Maine college or university.

14 B. Once a CFAME participant obtains a degree, the financial aid office of the
15 educational institution shall certify that the CFAME participant has obtained a degree
16 and list the amounts of student loan funds the CFAME participant used to pay for
17 eligible education costs at that educational institution. The principal amounts, interest
18 rates and terms of student loans that are part of the CFAME participant's financial aid
19 packages must be listed on an addendum attached to the CFAME contract. Eligible
20 education costs paid for with student loan proceeds must be similarly listed. The
21 CFAME contract must then be filed with the Secretary of State. Every accredited
22 Maine college and university shall develop procedures to facilitate this process, in
23 consultation with the Secretary of State.

24 C. Once the CFAME contract has been filed with the Secretary of State, the CFAME
25 participant becomes eligible to claim the CFAME tax credit, subject to the
26 requirements of this chapter and of Title 36, section 5217-D. The CFAME participant
27 may thereafter take advantage of any forbearance or deferment provisions in the
28 relevant loan agreements without forfeiting the right to claim the CFAME tax credit
29 when the CFAME participant resumes repayments.

30 **5. Effective date; participation by individuals already enrolled in degree**
31 **programs.** CFAME commences for the first semester that begins after the effective date
32 of this chapter. Individuals enrolled in a degree program before the effective date of this
33 chapter may participate in the program and claim credit for eligible education costs paid
34 for with student loans subject to the conditions listed in subsection 2, paragraph C.

35 **§12543. Effect on funding of higher education**

36 It is the intent of the Legislature that neither the existence of the program nor the
37 benefits provided under the CFAME tax credit serve as justification to decrease other
38 funds appropriated or allocated to the accredited Maine colleges and universities and to
39 other higher education programs.

1 **§12544. Rules**

2 The State Board of Education shall, in accordance with Title 20-A, section 3, adopt
3 rules as necessary to carry out the purposes of this chapter. Rules adopted pursuant to this
4 section are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A.

5 **PART B**

6 **Sec. B-1. 36 MRSA §5217-D** is enacted to read:

7 **§5217-D. Credit for student loan payments**

8 **1. Definitions.** As used in this section, unless the context indicates otherwise, the
9 following terms have the following meanings.

10 A. "CFAME contract" has the same meaning as in Title 20-A, section 12541,
11 subsection 3.

12 B. "CFAME participant" has the same meaning as in Title 20-A, section 12541,
13 subsection 4.

14 C. "Employer" has the same meaning as the term "employing unit," as defined in
15 Title 26, section 1043.

16 D. "Principal cap" has the same meaning as in Title 20-A, section 12541, subsection
17 9.

18 E. "Qualified employee" is an employee who is eligible for the credit under
19 subsection 2 and who is employed at least part-time in the State.

20 F. "Resident individual" has the same meaning as in section 5102, subsection 5.

21 **2. Credit and carry-over allowed.** A taxpayer who is a CFAME participant or a
22 Maine employer of a qualified employee is allowed a credit against the tax imposed by
23 this Part for each taxable year under the terms established in this section.

24 A taxpayer entitled to the credit for any taxable year may carry over any unusable credit
25 or portion thereof and apply it against tax liabilities in one or more of the next succeeding
26 10 years. The credit may not reduce the tax otherwise due under this Part to less than
27 zero. More than one taxpayer may make payments on behalf of a single CFAME
28 participant and then claim credit for the payments made, but no 2 taxpayers may claim a
29 credit for the same payment.

30 **3. Calculation of the credit.** The tax credit under this section is calculated as
31 follows.

32 A. If the CFAME participant's CFAME contract certifies that the total principal for
33 all qualifying student loans is at or below the level of the principal cap, the taxpayer
34 may claim a credit based on regularly scheduled student loan payments actually
35 made, including both principal and interest.

36 B. If the total CFAME principal value of the student loans listed on a CFAME
37 participant's CFAME contract exceeds the principal cap, then a credit may be claimed

1 only for a portion of each monthly student loan payment. That credit is equal to the
2 amount of the monthly loan payment, including principal and interest, multiplied by a
3 fraction equal to the principal cap divided by the total principal value of the student
4 loans.

5 **4. Conditions for a CFAME participant claiming the credit.** The CFAME
6 participant may claim the credit under this section only for student loan payments made
7 during months in which the participant was a resident individual working for an employer
8 located in the State. A married couple filing jointly under section 5221 may claim the
9 credit only to the extent that the spouse on whose behalf the credit is claimed meets these
10 requirements.

11 **5. Conditions for an employer claiming the credit.** A taxpayer that is an employer
12 may claim the credit under this section for repaying a qualified employee's CFAME-
13 certified loans.

14 A. In order to claim the credit under this section, the employer must make partial or
15 full loan payments directly to the relevant lender or lenders on behalf of a qualified
16 employee and must have taken reasonable steps to ascertain that the employee is in
17 fact a qualified employee. The employer may claim a credit only for loan amounts
18 that come due and are paid by the employer during the term of the qualified
19 employee's employment. To receive the credit, the employer must retain for 5 years
20 any proof of eligibility that the employee provides.

21 B. If the qualified employee is employed only on a part-time basis, the employer
22 may claim a credit under this section for only half of the total that the qualified
23 employee might otherwise have claimed. For purposes of this paragraph, employment
24 on a part-time basis means employment with a normal work week of between 16 and
25 32 hours.

26 C. An employer claiming a credit under this section on behalf of a qualified
27 employee for a taxable year may not simultaneously claim a credit under, section
28 5219-V on behalf of the same employee.

29 SUMMARY

30 The purpose of this bill is to create economic opportunities for Maine people by
31 making college affordable and to help the State retain and attract educated young people
32 and increase the State's tax base without raising tax rates. This bill provides a dollar-for-
33 dollar tax credit to reimburse Maine residents for student loan payments when they earn a
34 degree in the State and then live, work and pay taxes in the State thereafter. Any Maine
35 resident who earns a degree from any accredited Maine college, including community
36 colleges, private colleges and all university campuses, may take advantage of the credit.
37 Alternatively, an employer may make student loan payments for an employee and claim
38 the credit.