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H.F. 8 allows a refundable income tax credit of up to \$2,000 for principal and interest payments on higher education loans on individuals who work in public service jobs and are experiencing financial hardship. Effective for tax year 2017.

Credit Amount

The credit equals one-half of eligible loan payments in excess of ten percent of adjusted gross income. The credit is capped at \$2,000. Adjusted gross income is income before federal and state deductions and exemptions. The credit is refundable, with amounts in excess of liability paid to the taxpayer as a refund.

Eligibility

If both the taxpayer and the taxpayer's spouse have met the eligibility criteria, each may claim the credit. To qualify for the credit, an individual must meet the following conditions:

- Be employed in a *public service job*, as defined under the Federal Public Service Loan Forgiveness Program as jobs for the federal, state, or local government, school district, military service, tax-exempt 501(c)(3) organizations, and not-for-profit organizations that are not tax exempt but provide certain qualifying public services.
- Have a *partial financial hardship*, defined under the federal Income-Based Repayment Program as a situation where the amount a borrower would owe under the standard student loan repayment plan is greater than 15 percent of the borrower's income in excess of 150 percent of the federal poverty line (\$24,360 for a family of two in 2017).
- Have one or more *qualified education loans*.

Qualifying Loans

“Qualified education loan” is any loan used to pay for the costs of attending an undergraduate or graduate degree program at an educational institution eligible for federal financial aid. This includes federal direct and Perkins loans, state loans, and private student loans.

Qualifying Payments

Only payments made by an eligible individual on the individual's qualified education loans qualify for the credit.