

**LEGISLATIVE FISCAL OFFICE
Fiscal Note**



Fiscal Note On: **HB 424** HLS 21RS 602
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 4, 2021	1:29 PM	Author: MCFARLAND
Dept./Agy.: Revenue		Analyst: Tanesha Morgan
Subject: Income tax deduction		

TAX/INCOME TAX EN -\$687,000 GF RV See Note Page 1 of 2
 Establishes an individual income tax deduction for taxpayers who adopt a child from foster care

Proposed law provides an income tax deduction for a taxpayer who adopts a child who is in foster care. The amount of the deduction shall equal \$5,000, but not to exceed the taxpayers taxable income, and shall be applicable in the year the adoption of the child becomes final. The deduction in proposed law shall be in lieu of the \$1,000 dependency deduction authorized in present law (R.S. 47:294). Proposed law provides an income tax deduction for a taxpayer who adopts a child that is unrelated and under the age of 1 through a private agency or an attorney. The amount of the deduction shall equal \$5,000, but not to exceed the taxpayers taxable income, and shall be applicable in the year the adoption of the child becomes final. The deduction in proposed law shall be in lieu of the \$1,000 dependency deduction. Proposed law provides a nonrefundable tax credit for donations made to qualifying foster care charitable organizations. A donating taxpayer's credit is limited to the lesser of \$50,000 or the actual amount donated, with a five-year carryforward period for unused credit amounts. The total amount of credits that can be granted in a year is \$500,000.

Applicable to adoptions finalized and donations made on or after January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.		(\$687,000)	(\$687,000)	(\$687,000)	(\$687,000)	(\$2,748,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	(\$687,000)	(\$687,000)	(\$687,000)	(\$687,000)	(\$2,748,000)

EXPENDITURE EXPLANATION

The LA Dept. of Revenue (LDR) anticipates one-time costs of \$128,400 in IT staff time in FY 22 to program and test changes to the Department's tax systems associated with the two proposed tax deductions and one proposed tax credit in the bill. Ongoing administrative costs would also be incurred to monitor and maintain the \$500,000/year cap on donations to foster care charitable organizations.

REVENUE EXPLANATION

Tax deductions for adopting certain children

Effectively, the bill provides a personal income tax deduction of \$4,000 for families that adopt a child who is already in their foster care, and \$5,000 for families adopting a foster child not already in their foster care. According to DCFS, on average, 813 children in foster care are adopted each year.

Assuming the highest personal income tax rate of 6%, the maximum state fiscal exposure each year is estimated to be a loss of \$244,000 in tax collections (\$5,000 additional personal income deduction x 6% tax rate x 813 adoptions = \$243,900). Actual exposure is likely to be somewhat less as some adoptions will be by families already caring for the child as a foster child, and will receive the \$5,000 deduction less the \$1,000 dependent deduction, and some adopting families will be subject to a 4% marginal tax rate (it is assumed that few adopting families have incomes at the 2% marginal tax rate). Minimum state fiscal exposure would be \$130,000 (\$4,000 additional personal income deduction x 4% tax rate x 813 adoptions = \$130,080). The average of these two calculations (\$187,000) is utilized as a reasonable estimate of the state fiscal exposure. The first fiscal year of state fiscal exposure is FY23, when returns for tax year 2022 are filed in the spring of 2023.


The bill also provides a personal income tax deduction of \$4,000 for families that adopt certain children who are already in their care through a private agency or an attorney, and \$5,000 for families that adopt certain children through a private agency or an attorney that are not already in their care. DCFS does not track data on private adoptions. The revenue impact of a tax deduction for parents that adopt certain children through a private agency or an attorney is indeterminable. Thus, the state fiscal exposure to the bill's child tax deductions could be materially greater than above.

Tax credit for donating to qualifying foster care charitable organizations

This bill caps the annual credit costs of the proposed program at \$500,000 per year, and that amount represents the annual state fiscal exposure in the table above. The Dept. of Children and Family Services provided a description of foster care support activities carried out around the state by ten existing charitable organizations. Presumably, these organizations would be potential applicants for qualifying into the program, and the donations that support their activities.

Revenue Explanation Continued on Page 2

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}


Alan M. Boxberger
Staff Director



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CONTINUED EXPLANATION from page one:

Revenue Explanation Continued from Page 1

Tax credit for donating to qualifying foster care charitable organizations

The amount of donations that might qualify for the program is indeterminable at the outset of such a program. Charitable organization tax credit programs in general have become increasingly popular in recent years, and can show significant growth. This bill caps the annual credit costs of the proposed program at \$500,000 per year, and that amount represents the annual state fiscal exposure in the table above. Actual credit realizations may ramp-up over two or three years, but the program aggregate credit cap is not high, and might be achieved quickly if the program is popularized quickly. In addition, the Dept. of Children and Family Services provided a description of foster care support activities carried out around the state by ten existing charitable organizations. Presumably, these organizations would be potential applicants for qualifying into the program, and the donations that support their activities.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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