



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 443** HLS 23RS 771
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 16, 2023	4:20 PM	Author: EDMONDS
Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Refundable Tax Credit for Taxpayer Adopting a Child		

TAX CREDITS OR -\$6,900,000 GF RV See Note Page 1 of 2
 Establishes a refundable individual income tax credit for certain adoptions

Proposed law authorizes a one-time refundable \$5,000 tax credit for a taxpayer who adopts a child under 18 years of age who is unrelated to the taxpayer, which shall be claimed in the year the adoption becomes final. Proposed law specifies that the credit shall be in lieu of the \$1,000 income tax deduction per dependent in current law, and repeals similar deductions for adoptions of unrelated infants, foster care children, or recipients of extended foster care services.

Effective upon governor's signature, and applicable toward adoptions finalized on or after January 1, 2023.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	\$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>	\$0
Annual Total		\$0	\$0	\$0	\$0	\$0

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$34,500,000)
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>	\$0
Annual Total	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$6,900,000)	(\$34,500,000)

EXPENDITURE EXPLANATION

LDR anticipates that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. The change is estimated at \$53,000 of staff time.

REVENUE EXPLANATION

Proposed law would replace the one-time \$5,000 deductions for dependents that apply to the adoption of unrelated infants, foster children or recipients of extended foster care services with a one-time \$5,000 refundable credit that applies to all adoptions of unrelated children under 18, applicable to adoptions that are finalized on or after January 1, 2023. Effectively, the bill elevates existing one-time \$5,000 deductions to one-time refundable credits and expands the eligibility pool to adoptions of unrelated children aged 2-18. Credits exceeding the tax liability of the claimant will be refunded in the same manner as overpayments. The credit is in lieu of the \$1,000 per child dependent deduction authorized in current law.

The deductions that are replaced by proposed law were enacted in 2021, thus utilization data is not yet available. The anticipated reduction to the state general fund is around \$187,000 for foster adoptions plus the indeterminate impact of private adoptions of infants under 1 year. Assuming the maximum personal income tax rate of 4.25%, the deduction reduces liability by \$213 where the refundable credit reduces liability by \$5,000 for a net state general fund reduction of \$4,788 per eligible adoption. **For the 813 adoptions estimated in Act 378 of 2021, the cost to the state due to this bill would be about \$3.9M using similar methodology.** The federal Department of Health & Human Services reports that as of September 30, 2021, 1,041 children were awaiting adoption, and that approximately 30% of adoptions were performed by relatives of the adopted child in typical years. **If 100 adoptions of unrelated infants are eligible for the credit in lieu of the \$5,000 deduction, the state general fund would be reduced by an additional \$479,000.**

The bill also adds unrelated children adoptions between the ages of 2-18 that would be eligible for the \$5,000 credit in lieu of the \$1,000 dependent deduction (an decrease in tax liability of \$4,958 per adoption: \$5,000 credit less \$52.50 liability reduction from the \$1,000 deduction). The federal Department of Health & Human Services reports that as of September 30, 2021, 1,041 children were awaiting adoption, and that approximately 30% of adoptions were performed by relatives of the adopted child in typical years and that actual non-public adoptions in the state in 2019 totaled 1,067. **Assuming the credit is taken instead of the \$1,000 deduction for 500 adoptions of unrelated 2-28 year olds, the state general fund would be reduced by an additional \$2.5M.**

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}

Deborah Vivien
Chief Economist



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 443** HLS 23RS 771
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 16, 2023	4:20 PM	Author: EDMONDS
Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Refundable Tax Credit for Taxpayer Adopting a Child		

CONTINUED EXPLANATION from page one:

The credit must be claimed in the year in which the adoption becomes final (presumably in the state) so is available only for new adoptions. Actual impacts will depend on the effective rate of the adoptive parents. However, the bill does expand eligibility to a much deeper pool of potential recipients, which adds uncertainty to the estimates provided.

LFO notes that although proposed law provides additional incentive for a taxpayer to adopt an unrelated child, it does not provide for requirements or resources that accelerate or shorten the adoption process, and no material impact on annual adoptions is anticipated due to proposed law. These figures imply a likely revenue impact of approximately \$6.9 million in a typical year, however the number of finalized adoptions will fluctuate over time, and may differ in any given year.

Senate Dual Referral Rules

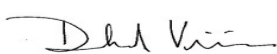
13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}

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}



Deborah Vivien
Chief Economist