

**LEGISLATIVE FISCAL OFFICE
Fiscal Note**



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

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Dept./Agy.: Revenue		Analyst: Tanesha Morgan
Subject: Income tax deduction		

TAX/INCOME TAX OR -\$187,000 GF RV See Note Page 1 of 1
 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). The taxpayer claiming the deduction is to maintain all records necessary to verify the adoption and if requested, to provide the records to the Dept. of Revenue when filing the taxpayer's tax return.

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

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$0	\$0	\$0	\$0	\$0
REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$187,000)	(\$187,000)	(\$187,000)	(\$187,000)	(\$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>	\$0
Annual Total	\$0	(\$187,000)	(\$187,000)	(\$187,000)	(\$187,000)	(\$748,000)

EXPENDITURE EXPLANATION

The Dept. of Revenue will likely incur minor costs to incorporate the change in this deduction. Additional resources may be required by the department dependent upon the cumulative amount of changes enacted in the session.

REVENUE EXPLANATION

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. This deduction is only allowed one-time, in the year in which the adoption is finalized. 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 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.

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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