LEGISLATIVE FISCAL OFFICE
Fiscal Note

Date: April 17, 2023 4:36 PM	**Author:** BEAULLIEU
Dept./Agy.: Department of Children & Family Services / Revenue	
Subject: Strong LA Families Tax Credit & Adoption Tax Credit	**Analyst:** Benjamin Vincent

TAX CREDITS   OR -$16,900,000 GF RV See Note

Establishes a tax credit for infant adoptions and the Strong Louisiana Families Tax Credit for donations to certain social service organizations

<u>Proposed law</u> establishes the nonrefundable Strong Louisiana Families Tax Credit, which matches donations up to $50,000 against corporate or personal income tax, per taxpayer per year, to certain charitable organizations in the state that must be certified by DCFS as providing certain services and meeting certain criteria. The credit terminates on December 31, 2028, but allows a carryforward of five years in the event of insufficient tax liability to exhaust credits issued.

<u>Proposed law</u> additionally authorizes a 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. <u>Proposed law</u> specifies that the credit shall be in lieu of the income tax deductions for dependents in current law, and repeals specific deductions for adoptions of unrelated infants, foster care children, or recipients of extended foster care services.

Effective upon governor's signature, and applicable toward taxable years beginning on or after January 1, 2024.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5-YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	$0	$0	$0	$0	$0	$0
Federal Funds	$0	$0	$0	$0	$0	$0
Local Funds	$0	$0	$0	$0	$0	$0
Annual Total						

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5-YEAR TOTAL
State Gen. Fd.	$0	($16,900,000)	($16,900,000)	($16,900,000)	($16,900,000)	**($67,600,000)**
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	$0	$0	$0	$0	$0	$0
Annual Total	**$0**	**($16,900,000)**	**($16,900,000)**	**($16,900,000)**	**($16,900,000)**	**($67,600,000)**

EXPENDITURE EXPLANATION

LDR and DCFS must certify eligibility of recipient organizations per the broad set of activities and parameters in proposed law, and both are granted rulemaking authority. Several organizations may be eligible for donations under the Strong Families credit, a potentially material workload increase.

LDR anticipates that administration of the credits in proposed law will require one additional Revenue Tax Specialist ($87,000). Additionally, implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification, estimated at $53,000 of staff time.

DCFS anticipates that processing, review, and monitoring of recipient organizations under the Strong LA Families program is not a typical function of the agency and may not be practicable without additional positions. DCFS review of requirements to effectively administer its responsibilities in proposed law is still under review.

REVENUE EXPLANATION
Strong Louisiana Families Tax Credit

Proposed law establishes a nonrefundable credit matching donations up to $50,000 per taxpayer per year to certain charitable organizations, authorized to issue credits of up to $10 million annually in taxable years 2024 through 2028. DCFS must certify that organizations receiving donations participate in certain activities and meet certain criteria in order for the donations to be eligible for the credit.

LFO notes that a broad set of activities are eligible, potentially implying a large number of eligible organizations and a significant likelihood of sufficient participation to reach the credit maximum annually, **reflected in the tables above as $10 mil of the annual total** state general fund impact.

Adoption Tax Credit

Proposed law additionally replaces the deductions for dependents that apply to certain adoptions with a $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. Credits exceeding the tax liability of the claimant will be refunded in the same manner as overpayments.

Figures discussed on Page 2 imply a **likely adoption credit impact of approximately $6.9 million** annually, however the number of finalized adoptions will fluctuate over time, and may differ in any given year.

The anticipated general fund revenue impact of the credits in proposed law combined equals $16.9 million.

Senate	Dual Referral Rules	House	
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}	
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

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CONTINUED EXPLANATION from page one:

Adoption Tax Credit (cont)

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.**

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.

Senate	Dual Referral Rules	House	
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}	
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

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