

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4823-01
Bill No.: HB 2171
Subject: Taxation and Revenue - General; Tax Credits; Taxation and Revenue - Income; Adoption; Disabilities; Children and Minors; Department of Revenue
Type: Original
Date: February 10, 2020

Bill Summary: This proposal modifies provisions relating to tax credits for the adoption of children.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0	\$0 to (\$1,892,000)	\$0 to (\$1,892,000)
Total Estimated Net Effect on General Revenue	\$0	\$0 to (\$1,892,000)	\$0 to (\$1,892,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.325 and 135.326 - Adoption Tax Credit

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state the proposed legislation modifies the Special Needs Adoption Tax Credit and renames it the Adoption Tax Credit.

Any person residing in the state who proceeds with the adoption of a child on or after January 1, 2021, regardless of whether such child is a special needs child, shall be eligible to receive a tax credit of up to \$10,000 for nonrecurring adoption expenses. This credit is capped at \$2 million but may be increased by appropriation.

These changes could increase participation in the program and could reduce General Revenue (GR) and Total State Revenues (TSR) by up to \$2 million annually.

Oversight notes B&P assumes this proposed legislation could increase participation in the tax credit authorized under Section 135.326.

Officials from the **Missouri Department of Revenue (DOR)** assume this proposed legislation would not have a fiscal impact.

DOR states, currently, a tax credit is available for taxpayers who adopt a special needs child in an amount up to \$10,000 for non-recurring adoption expenses. A business entity that provides funds to an employee to enable the employee to adopt a special needs child can also receive a tax credit up to \$10,000 for non-recurring expenses paid. This proposed legislation would, starting January 1, 2021, remove the restriction that this tax credit be only for the adoption of special needs children and will allow for the adoption of any child.

Currently this tax credit is capped at \$2 million annually unless an appropriation is made to increase the amount. This proposed language does not change the existing cap. According to DOR data, the following amount of tax credits have been redeemed:

Fiscal Year	Amount Redeemed
2016	\$231,267
2017	\$127,211
2018	\$88,706
2019	\$19,815

ASSUMPTION (continued)

Officials from the **Missouri Department of Social Services (DSS)** state there will be no fiscal impact. DSS states the number of foster children adopted in the last six fiscal years to be:

Fiscal Year	Finalized Adoptions (Foster Children Only)
2014	1250
2015	1243
2016	1462
2017	1504
2018	1621
2019	1667

Oversight notes DOR and DSS assume this proposed legislation will not have a fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will report a zero fiscal impact for these organizations.

Oversight notes, in response to similar legislation (HB 2216), the **Missouri Department of Commerce and Insurance (DCI)** stated there could be a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the change to the "Adoption Tax Credit Act" tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit proposed.

DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DCI may need to request more expense and equipment appropriation through the budget process.

Oversight does not have any information to the contrary. Oversight notes DCI assumes they are able to absorb the costs associated with the programming changes required by this proposal, but if multiple proposals pass during the legislative session requiring additional program changes, cumulatively the effect of all proposals passed may result in DCI needing additional appropriations.

ASSUMPTION (continued)

Oversight notes this proposed legislation changes the name of the Special Needs Adoption Tax Credit to Adoption Tax Credit.

Oversight further notes this proposed legislation states, beginning on or after January 1, 2021, any person residing in this state who proceeds in good faith with the adoption of a child shall receive a tax credit of an amount up to \$10,000 for non-recurring expenses paid for each child adopted to be used against taxes owed under Chapter 143. The tax credit shall be allowed regardless of whether or not the child is a resident or ward of the State of Missouri. Any business entity that provides funds to an employee in order for such employee to proceed in good faith with the adoption of a child, shall be eligible to receive a tax credit of an amount up to \$10,000 for non-recurring expenses paid.

Oversight notes, currently, the Special Needs Adoption Tax Credit allows a tax credit to any person or business that proceeds to adopt a special needs child that is a resident or ward of the State of Missouri.

This proposed legislation removes the requirement that the child be special needs and also removes the requirement that the child be a resident or ward of the State of Missouri.

Therefore, **Oversight** assumes the participation of the program would increase due to the reduced requirements or criteria required to receive the tax credit.

Oversight notes, per the Tax Credit Analysis for the existing Special Needs Adoption Tax Credit, submitted to Oversight by DOR, the tax credit had the following activity:

	FY 2017 ACTUAL	FY 2018 ACTUAL	FY 2019 ACTUAL	FY 2020 (est)	FY 2021 (est.)
Certificates Issued (#)	0	0	0	0	0
Projects (#)	0	0	0	0	0
Amount Redeemed	\$127,211	\$88,706	\$0	\$108,000	\$108,000

Oversight notes, based on the information provided by DOR, the average amount of Special Needs Adoption Tax Credit to be claimed and allowed on tax returns each year equals \$116,750. Oversight notes, though, the Tax Credit Analysis for the existing Special Needs Adoption Tax Credit assumes Fiscal Year 2021 redemptions will amount to \$108,000.

ASSUMPTION (continued)

Therefore, for purposes of this fiscal note, Oversight will show a reduction to GR and TSR equal to the difference between the tax credit cap equal to \$2 million and the estimated Fiscal Year 2021 redemption amount equal to \$108,000.

Thus, Oversight estimates GR and TSR may be reduced by \$1,892,000 (\$2,000,000 - \$108,000) beginning in Fiscal Year Fiscal Year 2022.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - Section 135.326 - Increase in Adoption Tax Credit participation	<u>\$0</u>	<u>\$0 to</u> <u>(\$1,892,000)</u>	<u>\$0 to</u> <u>(\$1,892,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0 to</u> <u>(\$1,892,000)</u>	<u>\$0 to</u> <u>(\$1,892,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposed legislation could positively impact any small business that provides the necessary funds to an employee to proceed with the adoption of a child as this proposed legislation would allow the small business to utilize a tax credit to reduce the small business's state tax liability.

FISCAL DESCRIPTION

This bill changes the current Special Needs Adoption Tax Credit to a general \$10,000 nonrefundable adoption tax credit for adoption related expenses. The credit is available for any Missouri family adopting any child.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Social Services
Missouri Department of Commerce and Insurance



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February 10, 2020



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February 10, 2020