

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0413-04  
Bill No.: SCS for SB 3  
Subject: Taxation and Revenue; Children and Minors.  
Type: Original  
Date: April 15, 2005

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
	\$0	\$0	\$0
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
Local Government*	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### ASSUMPTION

In response to a previous version of this proposal, officials from the **Department of Social Services** assumed the proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the bill changes the allocation of the adoption tax credit, but not the \$4 million cap currently in statute. BAP assumes the proposal would have no affect on General Revenue and Total State Revenues.

Officials from the **Department of Revenue (DOR)** state this substitute would remove the apportionment of \$4 million cap currently on the Adoption Credit. DOR's Division of Taxation would not have an impact since Personal Tax is currently spending time apportioning or prorating credit amounts on the ones that would be approved with this legislation.

These changes are beneficial to DOR in administering this tax credit since they remove the administrative burden and also allows DOR to reduce the information needed on the claims. It also eliminates resident and nonresident adoption issues.

This proposal adds language to Section 135.329 - "the credit allowable for nonrecurring adoption expenses shall be reduced to the same degree that the federal adoption tax credit is reduced by

ASSUMPTION (continued)

the income limitation set forth in the federal adoption tax credit law, 26 U.S.C. Section 23, as amended".

DOR assumes they will have internal costs associated with the implement of this legislation; however, believe it can manage these costs at current appropriation levels unless there is a material change in the division's other responsibilities.

In response to a previous version of this proposal, DOR stated that as of 12/10/2004, the credits that have been applied for are as follows:

Non Resident Child	\$3,121,267
Resident Child	\$ 279,003
Residency Unknown	<u>\$ 515,869</u>
Total applied for	<u>\$3,916,139</u>

**Oversight** will assume DOR's "Residency Unknown" will fall under the Non Resident Child category for purposes of this fiscal note. With that assumption, there are roughly \$1.63 million (\$3,121,267 + \$515,869 - \$2,000,000 cap) in nonrecurring adoption expenses that are beyond the current annual statutory limit of \$2 million. Oversight assumes, with passage of this legislation, these \$1.63 million in denied tax credits could flow through in FY 2006.

This program was changed in the 2004 Legislative Session (HB 1453) from a \$2 million annual cap with no mention of residents versus non-Missouri residents to a combined cap of \$4 million (with at least \$2 million for children who are Missouri residents).

While this proposal will likely result in an increase utilization of the adoption tax credits by parents of non-resident children, Oversight assumes the total annual cap has not changed from the \$4 million level that was established in 2004. Therefore, Oversight assumes the fiscal impact of the adoption tax credit program has been reflected in the fiscal notes for both the enabling legislation as well as HB 1453 from 2004, showing the fiscal impact to the state from this program is a reduction to General Revenue of up to \$4 million in annually. With this assumption, Oversight will assume this substitute will not result in an additional loss to the state (beyond the \$4 million cap), even though these changes may increase the utilization of the tax credits closer the established limit.

<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This substitute modifies the adoption tax credit program by removing the differentiation between special needs children who are residents or wards of the state and children who are not. Currently, a minimum of fifty percent of the \$4 million cap of adoption tax credits must be used on special needs children who are residents or wards of the state of Missouri. This substitute removes this requirement.

The credit allowable for nonrecurring adoption expenses will be reduced to the same degree the federal adoption tax credit is reduced by the income limit set forth in federal adoption tax credit law.

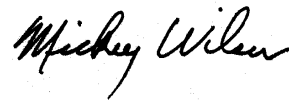
This substitute contains an emergency clause

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

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SOURCES OF INFORMATION

Department of Revenue  
Department of Social Services  
Office of Administration - Budget and Planning



Mickey Wilson, CPA  
Director  
April 15, 2005