

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1760S.01I
 Bill No.: SB 455
 Subject: Tax Credits; Adoption
 Type: Original
 Date: March 6, 2023

Bill Summary: This proposal modifies provisions relating to a tax credit for adoption expenses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	\$0	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0	\$0 to (Unknown)	\$0 to (Unknown)

*Oversight notes the fiscal impact from the changes from HB 429 (2021) are not yet fully known. Oversight will range the fiscal impact from these additional changes from \$0 (participation in the tax credit program does not change as a result of the bill) to an unknown amount – exceeding the \$250,000 threshold - beginning in Fiscal Year 2025

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal would make multiple changes to the adoption tax credit. This proposal would remove the annual \$6 million redemption cap and change the tax credit to refundable beginning with tax year 2024.

B&P notes that the average 3-year redemption amount from FY20 – FY22 was \$17,568. In addition, credit redemptions have been \$1 million or less since 2012. B&P estimates that this proposal may have an unknown negative impact on TSR and GR beginning FY25.

Officials from the **Department of Revenue (DOR)** note the Adoption Tax Credit program allows taxpayers who adopt a child to get a tax credit for non-recurring expenses that result from the adoption. Additionally, businesses that help cover the costs of their employee’s adoptions can receive the credit also. This program has a \$6 million annual cap.

This proposal removes the \$6 million annual cap starting January 1, 2024. Additionally, this proposal allows the credit to be refunded to taxpayers. While this may encourage more people to apply for this credit, it has not been near its \$6 million cap. Therefore, DOR assume this will not have any additional impact on DOR.

For informational purposes, DOR notes that the Adoption tax credit started in 1987. It has gone through numerous changes through the years. Most recently in 2021 when the cap on the program was raised from \$2 million to \$6 million annually. DOR is providing the amount of credits, issued and redeemed over the last few years.

Table 1.

Year	Issued	Total Redeemed
FY 2022	\$19,690.00	\$19,690.00
FY 2021	\$3,611.00	\$3,611.00
FY 2020	\$29,404.00	\$29,404.00
FY 2019	\$19,185.00	\$19,185.00
FY 2018	\$88,706.00	\$88,706.00
FY 2017	\$127,211.00	\$127,211.00
FY 2016	\$225,358.00	\$231,367.00
FY 2015	\$380,715.00	\$380,715.00
FY 2014	\$714,857.00	\$718,495.00
FY 2013	\$744,155.00	\$744,155.00
FY 2012	\$1,036,226.00	\$1,036,226.00
TOTALS	\$3,389,118.00	\$3,398,765.00

This proposal will require DOR to update the information on forms, website and computer. These changes are estimated at \$7,193.

Oversight assumes DOR will be able to absorb the cost of the internal updates; therefore, Oversight will reflect a zero impact for DOR in the fiscal note.

Oversight notes Section 135.331 states that no credit shall be allowable for the adoption of any child who has attained the age of eighteen, unless it has been determined that the child has a medical condition or disability (changed from “handicap”).

Oversight notes Section 135.333 allows after January 1, 2024, any amount of tax credit that is issued and which exceeds the tax due shall be refunded to the taxpayer. However, for tax years ending on or before December 31, 2023, any amount of tax credit which exceeds the tax due shall not be refunded, but instead may carry over up to maximum of 5 years.

Oversight notes the most recent data (regarding the adoptions of children with or without special needs) for state of Missouri from FY 2012 to FY 2019 as follows:

Table 2.

Missouri State	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Adopted	1,170	1,212	1,228	1,233	1,291	1,357	1,591	1,541	1,798	1,820
Waiting for Adoption	1,992	2,056	2,067	2,162	2,325	2,513	2,584	2,825	2,783	2,745

Source: <https://www.acf.hhs.gov/acf-data-research?keyword=special+needs>

Oversight notes that there was an average of 1,424 children adopted each year from 2010 to 2019.

Oversight notes the “adopted” children (shown above) represent estimated count of all children adopted, with public child welfare agency involvement, during the respective FY. An individual child is counted only once for each year, even if (in rare cases) the child was adopted multiple times during the year. In cases when an individual child is adopted in one year, and then adopted again in a subsequent year, he or she is included in the count of adoptions for both years.

Oversight notes that under current law, a tax credit is available for taxpayers who:

- Adopt a special needs child in an amount up to \$10,000 for nonrecurring 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 nonrecurring expenses paid.
- As of January 1, 2022, restriction that this tax credit be only for the adoption of special needs was removed, and the law allows for the adoption of any child. (HB 429 merged with HB 430 – 2021)

Oversight notes the proposal, Section 135.327, states that for tax years ending on or before December 31, 2023, priority shall be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated.

Furthermore, for tax years beginning on or after January 1, 2024, there shall be no limit imposed on the cumulative amount of tax credits that may be claimed by taxpayers claiming the credit for nonrecurring adoption expenses. (Currently the cap is set at \$6 million per year)

Oversight notes there were 20 taxpayers claiming the tax credit, from FY 2019 to FY 2022. Additionally, the taxpayers redeemed total amount of \$71,890 in tax credit within the same period. Therefore, the average redemption amount was \$3,595 (\$71,890/20) in tax credits. (See DOR table below – [Special Needs Children Adaption - Tax Credit Form Analysis](#))

Table 3.

	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL
Certificates Issued (#)	0	0	0	0
Projects (#)	7	8	2	3
Amount Authorized	\$0	\$0	\$0	\$0
Amount Issued	\$0	\$0	\$0	\$0
Amount Redeemed	\$19,185	\$29,404	\$3,611	\$19,690
Total Redeemed FY 19, 20, 21, 22				\$71,890
Total Projects FY 19, 20, 21, 22				20

Oversight notes the changes made in HB 429 from 2021 were only implemented starting January 1, 2022, therefore, Oversight does not have enough information to determine the actual increase in tax credits from the changes in that bill (increasing the cap from \$2 million to \$6 million and opening the credit up to children who are not considered special needs) has been. Oversight assumes the changes in this proposal may cause an additional upward trend in tax credit redemptions. However, the average adoption tax credit redemptions per year (before the changes from HB 429 – 2021 have been implemented) were only \$17,973 per year. Oversight assumes the various changes in the bill are unknown and could increase redemptions by the \$250,000 threshold in a given year.

Oversight notes the modifications to the Special Needs Adoption Tax Credit proposed in this legislation would begin January 1, 2024. Tax returns for Tax Year 2024 would not be filed until after January 1, 2025 (Fiscal Year 2025). Therefore, for purposes of this fiscal note, Oversight will show a reduction to GR equal to a range, beginning at \$0 (participation in the tax credit program does not change) to an unknown amount in Fiscal Year 2025.

Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025 and FY2026 as a result of the modification of Adoption 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 new tax credit. **Oversight** will assume for simplicity of fiscal note purposes that credits will be taken exclusively against general revenue

Officials from the **Department of Economic Development** and the **Department of Social Services** both assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact for the respective organizations in the fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 135.327 – Increase in Adoption Tax Credit (p.3-4)</u>	\$0	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	\$0 to (Unknown)	\$0 to (Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	\$0	\$0	\$0

FISCAL IMPACT – Small Business

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

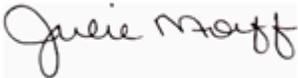
FISCAL DESCRIPTION

Current law authorizes a nonrefundable tax credit for nonrecurring adoption expenses, with an annual limit of \$6 million dollars in tax credits. This act makes the tax credit refundable, removes the \$6 million limit, and provides that, for tax years ending on or before December 31, 2023, priority for authorizing tax credits shall be given to applications for special needs children who are residents or wards of residents of this state.

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

Department of Revenue
Office of Administration – Budget & Planning
Department of Commerce and Insurance
Department of Economic Development
Department of Social Services



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Director
March 6, 2023



Ross Strobe
Assistant Director
March 6, 2023