Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0490	**Title:**	Adoption tax credit
Primary Sponsor:	French, Julie	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$2,500	$0	$0	$0
Revenue:				
General Fund	($225,426)	($278,492)	($330,000)	($330,000)
Net Impact-General Fund Balance	($227,926)	($278,492)	($330,000)	($330,000)

Description of fiscal impact:

This bill would allow taxpayers who adopt a child a $1,000 credit. This would reduce income tax revenue by about $330,000 per year.

FISCAL ANALYSIS

Assumptions:

1. Federal law allows taxpayers who adopt a child to claim a credit against federal income taxes for adoption expenses. Beginning with tax year 2007, this bill would allow taxpayers who qualify for the federal credit to claim a credit of $1,000 against Montana income taxes. If the credit is more than the taxpayer's tax liability, the excess would be carried forward for up to five years.
2. On average, 330 adoptions take place in Montana each year (source: DPHHS and Catholic Social Services of Montana). There will be 330 new credits claimed each year, for a total of $330,000.
3. Of full year resident taxpayers with tax liability on their 2005 returns, 52.1% had liability of at least $1,000. The remaining 47.9% had average liability of $337. These proportions and average liabilities are assumed to apply to taxpayers who would claim this credit.

4. For tax year 2007, 172 taxpayers (52.1% x 330) will use the full $1,000 credit and 158 taxpayers (47.9% x 330) will use the credit to offset their full tax liability, which will average $337. The total reduction in taxes will be $225,246 (172 x $1,000 + 158 x $337). On average, taxpayers who do not use their full credit will carry credits of $663 ($1,000 - $337) forward to use in future years.
5. For tax year 2008, 158 taxpayers will carry unused credits forward from 2007. On average, they will use $337 to offset their 2008 tax liability and carry $326 ($663 – $337) forward to 2009. The reduction in their 2008 taxes will be $53,246 (158 x $337). Taxpayers who claim new credits will use $225,246 to reduce their tax liability and carry $104,754 ($330,000 - $225,246) forward to use in future years. The total reduction in taxes will be $278,492 ($53,246 + $225,246).
6. For tax year 2009, taxpayers who carried credits forward from 2007 will use their remaining credits to reduce their taxes by $51,508 (158 x $326). Taxpayers who carried credits forward from 2008 will use them to reduce their taxes by $53,246, and taxpayers who claim new credits will reduce their taxes by $225,246. The total reduction in taxes will be $330,000. The tax reduction will be the same for each following tax year.
7. Credits will be claimed on tax returns filed in the spring following each tax year. Thus FY 2008 revenue will be reduced by the amount of reduction in 2007 taxes, and similarly for later fiscal years.
8. The Department of Revenue will need to develop a new form for taxpayers to claim this credit. Operating costs for form development will be $2,500 in FY 2008.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	$0	$0	$0	$0
Operating Expenses	$2,500	$0	$0	$0
TOTAL Expenditures	$2,500	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$2,500	$0	$0	$0
TOTAL Funding of Exp.	$2,500	$0	$0	$0
Revenues:				
General Fund (01)	($225,246)	($278,492)	($330,000)	($330,000)
TOTAL Revenues	($225,246)	($278,492)	($330,000)	($330,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($227,746)	($278,492)	($330,000)	($330,000)

Effect on County or Other Local Revenues or Expenditures:

1. None.

Long-Range Impacts:

1. The revenue reduction from this bill will continue after FY 2011. It will vary over time depending on the number of adoptions in each year.

<u>Technical Notes:</u>

1. Section 1(2) refers to "married taxpayers filing separately on the same return." When married taxpayers file separately, they file two returns, even when they use the option to file them on one piece of paper. The correct terminology is "married taxpayers filing separately on the same <u>form</u>."
2. Section 1(4) is difficult to read. The intent appears to be to allow taxpayers to claim the credit for a new adoption while continuing to carry forward unused credits from a previous adoption. This fiscal note assumes that this is the case.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*