



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0225 - Establish adoption tax credit (Sprunger, Courtenay)

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

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$1,395,000)	(\$1,395,000)	(\$1,395,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$1,395,000)</u>	<u>(\$1,395,000)</u>	<u>(\$1,395,000)</u>

Description of fiscal impact: HB 225 creates a state refundable individual income tax credit for taxpayers who legally adopt a child. The state credit applies to adoptions that are eligible for the federal adoption tax credit and is first available in tax year (TY) 2024. The state credit is \$7,500 if the child adopted was in the state foster care system and is \$5,000 for all other qualified adoptions. Only one credit can be claimed for each eligible child. The proposed credit is estimated to reduce general fund revenue by \$1,395,000 per year starting in FY 2025.

FISCAL ANALYSIS



Assumptions:**Department of Revenue**

- HB 225 creates an individual income tax credit for resident taxpayers who legally adopt an eligible child during the tax year. To qualify for the credit, the taxpayer and the child must qualify for the federal credit for adoption expenses under section 23 of the Internal Revenue Code, 26 U.S.C. 23. If the eligible child was in foster care under the custody of the state at the time of adoption, the taxpayer qualifies for a credit of \$7,500 the tax year the child was adopted. All other taxpayers who adopt a child during the tax year qualify for a tax

credit of \$5,000. Only one credit can be claimed for each eligible child. The credit is fully refundable and will be available to taxpayers starting TY 2024.

2. In Montana, a non-refundable adoption tax credit was in place from TY 2007 through TY 2021. That individual income tax adoption credit allowed all taxpayers who qualified for the federal adoption expenses credit to claim a non-refundable credit of \$1,000 for each eligible child. This fiscal note relies on usage of the former tax credit reported on Montana income tax forms, and information from the Department of Public Health and Human Services (DPHHS).
3. From TY 2013 through TY 2021, an average of 182 households claimed the state adoption income tax credit, with an average credit amount of \$1,239.
4. It is assumed that increasing the credit size and making the credit refundable will increase the total number of households claiming the credit. At the same time, restricting the credit to resident taxpayers will reduce the number of households who qualify for the credit.
5. Based on the historical average of 182 households claiming the old credit, and the changes made with HB 225, it is assumed that 200 households will claim an adoption tax credit each year the credit is available and that 25% of households will claim a credit based on adopting eligible children from the state foster care system.
6. With 50 households adopting from the foster care system, and a credit of \$7,500 per adopted child, the 50 households would qualify for \$375,000 (50 X \$7,500) in credits if each household adopted only one child.
7. With 150 households adopting outside the foster care system, and claiming the \$5,000 credit, these 150 households would qualify for \$750,000 (150 X \$5,000) in credits, if each household adopted only one child.
8. In total, the 200 households qualify for \$1,125,000 in credits if they adopt only one child during the year.
9. Some households will adopt more than one child in a tax year. From TY 2013 through TY 2021, the average credit amount claimed was 24% above the maximum credit amount of \$1,000 per child. It is assumed that total credits claimed will increase by an additional 24% because of households adopting more than one child during the tax year.
10. With \$1,125,000 in credits for a single child, and an adjustment factor of 24%, the total number of credits claimed each tax year are estimated to be \$1,395,000 ($\$1,125,000 \times 1.24$).
11. It is assumed that taxpayers will not adjust their withholdings or estimated payments in anticipation of receiving an adoption tax credit.
12. With no changes to withholding or estimated payments, and a credit implementation date of TY 2024, the proposed credit will reduce general fund revenue by \$1,395,000 in FY 2025, and each fiscal year thereafter.
13. The changes made by HB 225 can be made as part of the department's annual change processes with no significant additional cost.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$1,395,000)	(\$1,395,000)	(\$1,395,000)
TOTAL Revenues	<u>\$0</u>	<u>(\$1,395,000)</u>	<u>(\$1,395,000)</u>	<u>(\$1,395,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$1,395,000)	(\$1,395,000)	(\$1,395,000)

 _____ Sponsor's Initials	⁰⁵ 1-17-23 _____ Date	 _____ Budget Director's Initials	1-17-23 _____ Date
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