



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0225 - Establish adoption tax credit (Sprunger, Courtenay )

**Status:** As Amended in House Committee

- 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

	<b><u>FY 2024</u></b> <b><u>Difference</u></b>	<b><u>FY 2025</u></b> <b><u>Difference</u></b>	<b><u>FY 2026</u></b> <b><u>Difference</u></b>	<b><u>FY 2027</u></b> <b><u>Difference</u></b>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$1,860,000)	(\$1,240,000)	(\$1,240,000)	(\$1,240,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$1,860,000)</u>	<u>(\$1,240,000)</u>	<u>(\$1,240,000)</u>	<u>(\$1,240,000)</u>

**Description of fiscal impact:** HB 225 as amended in the House Taxation Committee, creates a state refundable individual income tax credit for taxpayers who legally adopt a child. The amended bill applies the credit retroactively, allowing adoptions on or after July 1, 2022, to qualify for the credit. The state credit applies to adoptions that are eligible for the federal adoption tax credit. 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 \$1,860,000 in FY 2024 and \$1,240,000 per year starting in FY 2025.

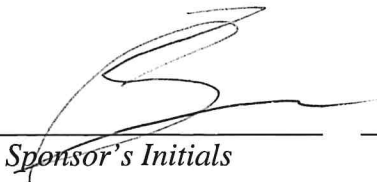

### FISCAL ANALYSIS

**Assumptions:****Department of Revenue**

1. HB 225 creates a personal 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 adopted 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.

2. As amended, the bill applies retroactively to adoptions that occur on or after July 1, 2022. The amended bill also applies a termination date for the credit of December 31, 2031.
3. From TY 2007 through TY 2021, Montana personal income tax allowed all taxpayers who qualify for the federal adoption expenses credit to claim a non-refundable credit of \$1,000 for each eligible child on their Montana income tax return.
4. 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.
5. 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.
6. Based on the historical average of 182 households claiming the old credit, and the changes made to the credit under the proposed bill, it is assumed that 200 households will claim an adoption tax credit each year the credit is available.
7. As most individuals do not incur the cost of adoption if they adopt from the foster system, these adoptions generally do not qualify for the federal adoption credit. It is assumed that none of the households who qualify for the credit adopted from the foster care system.
8. With 200 households claiming a credit, and none of households adopting from the foster care system, a total 200 households are assumed to be adopting from outside the foster care system.
9. With 200 households adopting outside the foster care system, and a credit of \$5,000 per adopted child, the 200 households would qualify for \$1,000,000 (200 X \$5,000) in credits if each household adopted one child.
10. In total, the 200 households qualify for \$1,000,000 in credits if they adopt a single child during the year.
11. 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% as some households adopt more than one child during the tax year.
12. With \$1,000,000 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 \$1,240,000 ( $\$1,000,000 \times 1.24$ ).
13. The amended bill applies the credit retroactively to adoptions that occur on or after July 1, 2022. It is assumed that half the adoptions that occurred in TY 2022 will qualify for the credit.
14. The income tax forms for TY 2022 have already been prepared and taxpayers have already begun filing their 2022 income tax returns. Because of this, it is assumed that the TY 2022 credits will not be claimed until the taxpayers file their TY 2023 returns in FY 2024.
15. It is assumed that taxpayers will not adjust their withholdings or estimated payments in anticipation of receiving an adoption tax credit.
16. With no changes to withholding or estimated payments, and a credit implementation date of July 1, 2022, the proposed credit will reduce general fund revenue by \$1,860,000 ( $\$1,240,000 + (\$1,240,000 \times 0.5)$ ) in FY 2024, and by \$1,240,000 each fiscal year thereafter.
17. The changes made by HB 225 can be made as part of the Department of Revenue annual change process. The Department does not expect to incur any significant additional costs because of this bill.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$1,860,000)	(\$1,240,000)	(\$1,240,000)	(\$1,240,000)
<b>TOTAL Revenues</b>	<u>(\$1,860,000)</u>	<u>(\$1,240,000)</u>	<u>(\$1,240,000)</u>	<u>(\$1,240,000)</u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$1,860,000)	(\$1,240,000)	(\$1,240,000)	(\$1,240,000)

 _____ <i>Sponsor's Initials</i>	_____ <i>Date</i>	 _____ <i>Budget Director's Initials</i>	<u>2-1-23</u> _____ <i>Date</i>
---	----------------------	--	---------------------------------------