



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

	<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	(\$3,255,000)	(\$2,170,000)	(\$2,170,000)	(\$2,170,000)
Net Impact-General Fund Balance:	<u>(\$3,255,000)</u>	<u>(\$2,170,000)</u>	<u>(\$2,170,000)</u>	<u>(\$2,170,000)</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 is \$7,500 if the adopted child was in the state foster care system and \$5,000 for all other adoptions. Only one credit can be claimed for each eligible child. The bill as amended in the House Taxation Committee is retroactive, allowing adoptions on or after July 1, 2022, to qualify for the credit. As amended in the House Appropriations Committee, the state credit applies to all adoptions regardless of their eligibility for the federal adoption tax credit.

FISCAL ANALYSIS

Assumptions:**Department of Revenue**

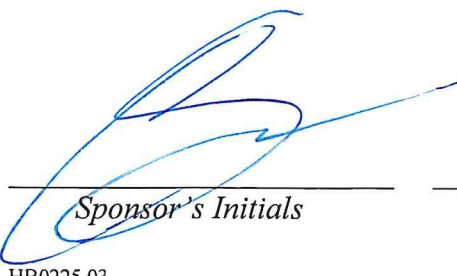
- HB 225 creates a individual income tax credit for resident taxpayers when they legally adopt an eligible child. If the eligible child was adopted through the state foster care system, the taxpayer qualifies for a credit of \$7,500. All other taxpayers who adopt a child during the tax year qualify for a tax credit of \$5,000. The credit may be claimed only once for each eligible child. The credit is fully refundable.
- As first amended, the bill applies retroactively to adoptions that occur on or after July 1, 2022. The amended bill also sets a December 31, 2031, termination date for the credit.

3. The bill was further amended in the House Appropriations Committee where the reference to the federal credit was eliminated. This change is likely to make more adoptions eligible for the credit, particularly those adoptions eligible for the higher foster care system credit.
4. Data from U.S. Department of Health and Human Services, Child Welfare Information Gateway report “*Trends in U.S. Adoptions 2008-2012*” shows that in 2012 roughly 1/3rd of all Montana adoptions were public (from the state foster care system) adoptions.
5. From TY 2007 through TY 2021, there was a \$1,000 non-refundable Montana personal income tax credit for taxpayers who qualified for the federal adoption expenses credit, for each eligible child adoption. 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. As these adoptions were tied to federal adoption claims they were likely all private adoptions. Most individuals did not incur federal eligible adoption costs if they adopted their child from the state foster care system.
6. It is assumed that increasing the credit amount 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.
7. 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 a private adoption tax credit.
8. It is assumed that 100 households would qualify for the foster care adoption credit ($100/(100+200)=1/3^{\text{rd}}$).
9. With 200 households claiming a private adoption credit, and 100 households claiming the foster care adoption credit, a total of 300 households are assumed to be adopting.
10. 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 ($200 \times \$5,000$) in credits if each household adopted one child.
11. With 100 households adopting children from the foster care system, and a credit of \$7,500 per adopted child, the 100 households would qualify for \$750,000 ($100 \times \$7,500$) in credits if each household adopted one child.
12. In total, 300 households qualify for \$1,750,000 in credits if they adopt a single child during the year.
13. 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 credits claimed will increase by an additional 24% as some households adopt more than one child.
14. With \$1,750,000 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 \$2,170,000 ($\$1,750,000 \times 1.24$).
15. 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. The income tax forms for TY 2022 have already been prepared and taxpayers have already begun filing their TY 2022 income tax returns. Because of this, it is assumed that the TY 2022 credits will be claimed with TY 2023 credits on TY 2023 returns in FY 2024.
16. It is assumed that taxpayers will not adjust their withholding or estimated payments in anticipation of receiving an adoption tax credit.
17. 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 \$3,255,000 ($\$1,085,000 + \$2,170,000$) in FY 2024, and by \$2,170,000 each fiscal year thereafter.
18. 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.

	<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>
Fiscal Impact:				
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Revenues:				
General Fund (01)	(\$3,255,000)	(\$2,170,000)	(\$2,170,000)	(\$2,170,000)
TOTAL Revenues	<u>(\$3,255,000)</u>	<u>(\$2,170,000)</u>	<u>(\$2,170,000)</u>	<u>(\$2,170,000)</u>
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$3,255,000)	(\$2,170,000)	(\$2,170,000)	(\$2,170,000)

Technical Notes:

1. By eliminating the references to the federal adoption tax credit Montana may see an unexpected increase in private and foster care adoption tax credit claims. There is an additional cost of \$1 million for every 133 adoptions of children from the state's foster care system and \$1 million for every 200 private adoptions.
2. Up to one-quarter of all adoptions are stepparent adoptions, it is assumed that these adoptions are eligible under the adoption tax credit in the bill as drafted.



 Sponsor's Initials

4/17/23

 Date



 Budget Director's Initials

4-17-23

 Date