

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0310H.011  
 Bill No.: HB 430  
 Subject: Taxation And Revenue - General; Tax Credits; Taxation And Revenue - Income;  
 Adoption; Disabilities; Children And Minors; Revenue, Department Of  
 Type: Original  
 Date: January 11, 2021

Bill Summary: This proposal modifies provisions relating to tax credits for the adoption of children.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0	\$0 to (\$1,955,000)	\$0 to (\$1,955,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0 to (\$1,955,000)</b>	<b>\$0 to (\$1,955,000)</b>

\* Oversight is reflecting a range of fiscal impact, beginning at \$0 (participation in the current tax credit program does not materially change) to the difference between the tax credit cap of \$2 million and the anticipated FY 2022 redemption amount (\$45,000), as estimated by DOR.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation modifies the Special Needs Adoption Tax Credit and renames it the Adoption Tax Credit. Any person residing in the state who proceeds with the adoption of a child on or after January 1, 2022, regardless of whether such child is a special needs child, shall be eligible to receive a tax credit of up to \$10,000 for nonrecurring adoption. This credit is capped at \$2 million but may be increased by appropriation.

These changes could increase participation in the program and could reduce General Revenue (GR) and Total State Revenue by an amount up to \$2 million annually.

**Oversight** notes this proposed legislation expands the program so that the adoption(s) of children who are considered special needs will qualify for the Adoption Tax Credit as well.

Officials from the **Missouri Department of Revenue (DOR)** state, 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.

This proposed legislation, starting January 1, 2022, would remove the restriction that this tax credit be only for the adoption of special needs children and will allow for the adoption of any child.

The current cap is set at \$2 million annually but can be adjusted based on appropriation by the General Assembly.

This proposed legislation would allow the adoption credit for any child, not just special needs children. However, this proposed legislation does not impact the current cap on the program.

DOR provides the following information on the amounts redeemed each of the last few fiscal years:

Year	Total Redeemed
FY 2020	\$29,404.00
FY 2019	\$19,185.00
FY 2018	\$88,706.00
FY 2017	\$127,211.00
FY 2016	\$231,367.00
FY 2015	\$380,715.00
FY 2014	\$718,495.00
FY 2013	\$744,155.00
FY 2012	\$1,036,226.00

While expanding the number of adopted children that qualify for this program may increase participation in this program; the annual cap of \$2 million is not changed. Therefore, DOR does not anticipate an impact from this program.

DOR states, by expanding the eligibility for the type of adoptions that are eligible for the credit, it is likely an increase in the number of individual and corporate returns claiming the credit will occur.

DOR requires one (1) FTE Associate Customer Service Representative (\$24,360 annual salary and \$24,244 fringe benefits (Year 2) for every 4,000 apportioned credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phone licenses, and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

**Oversight** notes DOR anticipates the need for three (3) FTE Associate Customer Service Representatives as a result of this proposed legislation.

**Oversight** notes the minimum number of taxpayers that would claim this tax credit annually could be as low as 200 (\$2,000,000 / \$10,000). Furthermore, under current law, the total amount of tax credits that could be redeemed as a result of this proposed legislation is \$2,000,000. This proposed legislation does not change the existing cap.

Therefore, Oversight assumes DOR can continue to administer this tax credit program with existing resources. Should DOR experience the number of redemptions, transfers, and/or errors generated to justify additional FTE, DOR could seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state this proposed legislation could cause a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the change to the “Adoption Tax Credit Act” 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 tax credit proposed. DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

**Oversight** notes DCI assumes the programming changes required as a result of this proposed legislation can be done so under existing appropriation.

**Oversight** notes this proposed legislation changes the name of the Special Needs Adoption Tax Credit to Adoption Tax Credit.

Currently, the Special Needs Adoption Tax Credit is limited to adoptions of special needs children who are residents or wards of residents of Missouri at the time the adoption is initiated.

This proposed legislation removes the requirements that such child being adopted be a special needs child or a resident or ward of a resident of Missouri. Therefore, a tax credit may be awarded to residents of this state who adopts any child or to a business who provides the funds necessary for an employee to adopt any child.

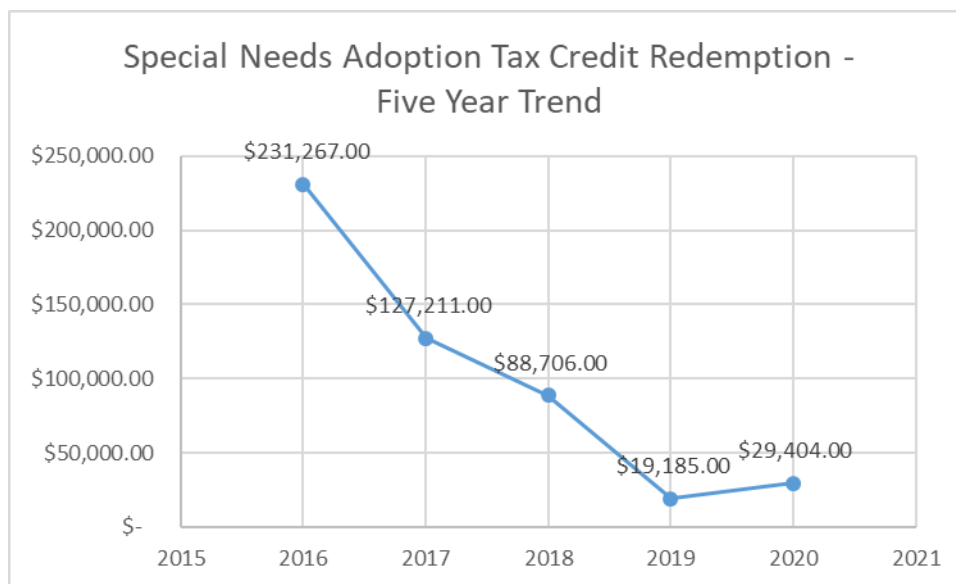
This proposed legislation states that priority shall be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated.

**Oversight** assumes participation in the tax credit program under Section(s) 135.325 to 135.339 will increase as a result of the reduced requirements needed to receive the tax credit.

**Oversight** notes, per the Tax Credit Analysis submitted to Oversight by the Department of Revenue, the Special Needs Adoption Tax Credit had the following activity as it is currently administered:

Special Needs Adoption Tax Credit	FY 2018 ACTUAL	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 (year to date)	FY 2021 (Full Year – est.)	FY 2022 (Budget Year – est.)
Amount Redeemed	\$88,706	\$19,185	\$29,404	\$0	\$45,000	\$45,000

**Oversight** notes, based on information provided to Oversight by DOR, the three year average amount of Special Needs Adoption Tax Credit claimed and allowed on tax returns totals \$45,765. Oversight further notes the five year average amount of Special Needs Adoption Tax Credit claimed and allowed on tax returns totals \$99,155. Below is a visualization showing the five year redemption trend for the Special Needs Adoption Tax Credit:



**Oversight** assumes much of the downward trend shown above is a result of [Senate Bill\(s\) 20, 15, and 19 of the 2013 Regular Session](#) which modified the Special Needs Adoption Tax Credit program by prohibiting the Special Needs Adoption Tax Credit for the adoption of non-resident children.

**Oversight** assumes, if passed, this proposed legislation would likely cause an upward trend in tax credit redemptions.

Officials from the **Missouri Department of Social Services**, the **Office of State Courts Administrator** and the **Missouri Department of Health and Senior Services** assume the proposed legislation will have **no** fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, for purposes of this fiscal note, Oversight will not show a fiscal impact for these agencies.

**Oversight** notes, per DOR, the estimated amount of Special Needs Adoption Tax Credit that will be claimed and allowed on tax returns during Fiscal Year 2022 totals \$45,000. Oversight notes the modifications to the Special Needs Adoption Tax Credit proposed in this legislation would

begin January 1, 2022. Tax returns for Tax Year 2022 would not be filed until after January 1, 2023 (Fiscal Year 2023). 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 the difference between the tax credit cap of \$2 million and the estimated Fiscal Year 2022 redemption amount, as estimated by DOR, beginning in Fiscal Year 2023.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction –</u> Section 135.327 – Increase in Adoption Tax Credit Participation	\$0	\$0 to (\$1,955,000)	\$0 to (\$1,955,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0</b>	<b>\$0 to (\$1,955,000)</b>	<b>\$0 to (\$1,955,000)</b>

<u>FISCAL IMPACT –</u> <u>Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that provides the necessary funds to an employee to proceed with the adoption of a child in which, under current law, would not qualify for the Special Needs Adoption Tax Credit as the small business could utilize the tax credit to reduce or eliminate the small business’s state tax liability.

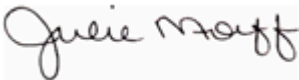
FISCAL DESCRIPTION

This proposed legislation changes the current Special Needs Adoption Tax Credit to a general \$10,000 non-refundable adoption tax credit for nonrecurring adoption expenses. The credit is made available for any Missouri resident adopting any child so long as priority is given to individuals who adopt a child of special needs who is a resident or ward of a resident of the State of Missouri.

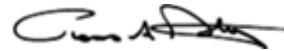
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division  
Missouri Department of Revenue  
Missouri Department of Commerce and Insurance  
Missouri Department of Social Services  
Missouri Department of Health and Senior Services  
Office of State Courts Administrator



Julie Morff  
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January 11, 2021



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