

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0310H.02C
 Bill No.: HCS 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 14, 2021

Bill Summary: Modifies provisions relating to tax credits for the adoption of children.

FISCAL SUMMARY

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

*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 Fiscal Year 2022 redemption amount (\$45,000), as estimated by DOR, reflecting an increased utilization of the tax credit program.

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

Numbers within parentheses: () indicate costs or losses.

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

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

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act.

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

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 expenses. 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.

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 a fiscal impact from this program.

DOR notes this proposed legislation adds language that requires priority be given to taxpayers who adopt a resident special needs child. This specific tax credit program is an apportioned tax credit in which the credit is apportioned amongst all filers equally upon reaching [or exceeding] the cap. DOR notes giving priority to certain taxpayers over others and apportioning the credit equally among the filers appears contradictory and DOR, at this time, is unable to determine how such priority could be implemented without specific language specifying how to prioritize such tax credits. At this time, DOR is unable to determine whether additional administrative costs would be necessary if DOR is required to prioritize tax credits under 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.

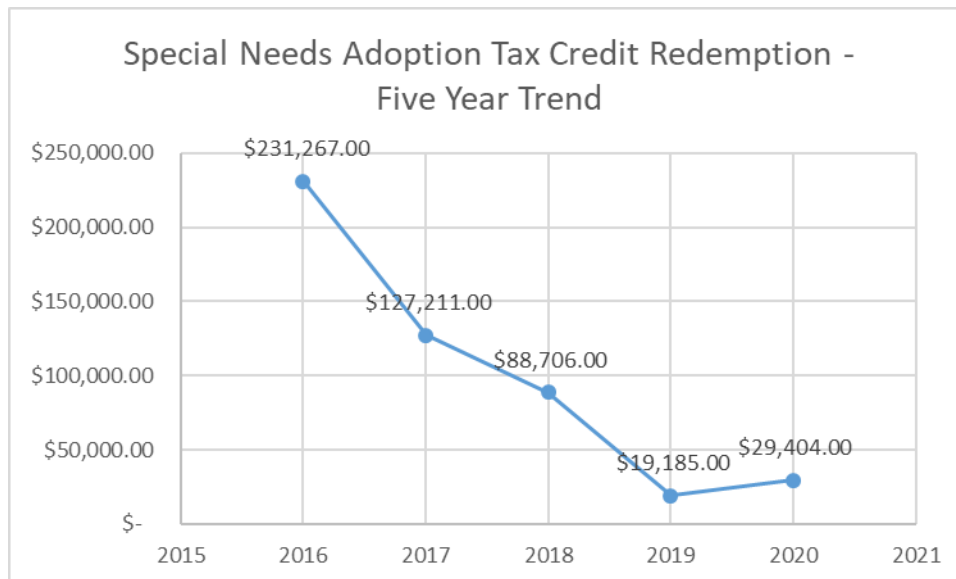
Oversight notes the definitions of “Handicap”, “Disability”, and “Special Needs Child” are modified. Oversight notes the tax credit program has a cap of \$2 million which is not changed as a result of this proposed legislation. Therefore, the changes to the definition(s) will not cause a fiscal impact.

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 respective 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 organizations.

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

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

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 renames and alters the current "Special Needs Adoption Tax Credit Act" to the "Adoption Tax Credit Act".

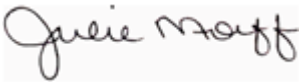
Currently, any person residing in this state who proceeds in good faith with the adoption of a special needs child who is a resident or ward of a resident of this state is eligible for a \$10,000 nonrefundable tax credit for nonrecurring adoption expenses for each child. Additionally, any business entity providing funds to an employee to enable that employee to proceed in good faith with the adoption of a special needs child is eligible to receive a tax credit of up to \$10,000 for nonrecurring adoption expenses for each child, except that only one \$10,000 credit is available for each special needs child that is adopted.

Beginning January 1, 2022, this bill removes the special needs and residency requirements for adoptions to be eligible for the tax credit. However, priority will 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. The House Committee Substitute changes the bill's definition of "handicap" to "disability" and modifies the definition of "special needs child".

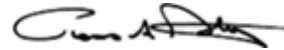
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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



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