

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0318H.02P
 Bill No.: Perfected HCS HB 429
 Subject: Taxation and Revenue - General; Tax Incentives; Adoption; Children and Minors;
 Revenue, Department of; Taxation And Revenue - Income; Children's Division;
 Social Services, Department of
 Type: Original
 Date: January 25, 2021

Bill Summary: This proposal authorizes an income tax deduction for the provision of child foster care services.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue	(\$238,032)	(\$1,038,690) to (\$1,311,728)	(\$1,038,690) to (\$1,311,728)
Total Estimated Net Effect on General Revenue	(\$238,032)	(\$1,038,690) to (\$1,311,728)	(\$1,038,690) to (\$1,311,728)

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

In response to the previous version of this proposed legislation, officials from the **Office of Administration – Budget & Planning Division (B&P)** stated this proposed legislation would grant foster parents an income tax deduction for the costs incurred related to providing care as a foster parent, beginning in Tax Year 2022. The total amount that may be granted is \$2,500 for individuals filing single and \$5,000 for individuals filing Married Filing Combined, so long as such individuals have been a foster parent for at least six months during the tax year. Individuals who have been foster parents for less than six months will be granted a pro rata portion of the maximum deduction. The following table shows the value of the tax deduction based on the length of fostering during a tax year.

Length of Fostering	Single	MFC
1 month	\$417	\$833
2 months	\$833	\$1,667
3 months	\$1,250	\$2,500
4 months	\$1,667	\$3,333
5 months	\$2,083	\$4,167
6 months or more	\$2,500	\$5,000

Based on information provided to B&P by the Missouri Department of Social Services, there are 13,875 children currently placed in 6,338 foster or relative home placements. There are 4,077 two parent foster homes and 2,261 one parent foster homes. For the purpose of this fiscal note, B&P assumes that two parent foster homes will file as married and one parent foster homes will file as single. Therefore, B&P estimates that 64.3% of foster homes are married filing joint and 35.7% are single.

Based on additional information provided by the Missouri Department of Social Services, there are currently 1,881 foster homes with placements less than six months. There are 4,457 foster homes with placements longer than six months.

Using the information and estimates above on the percent that are single versus married, B&P estimates that approximately 671 single individuals and 1,210 married individuals would qualify for a portion of the maximum deduction. B&P further estimates that approximately 1,590 single and 2,867 married foster parents will qualify for the maximum deduction.

B&P does not have information on the length of placements for foster homes that have operated for less than six months. Therefore, B&P will show a range where all foster parents qualify for one month of the deduction (\$417 single and \$833 married filing joint) and where all foster parents qualify for five months of the deduction (\$2,083 single and \$4,167 married filing joint). The following table shows the total estimated deductions that may be claimed during a tax year.

Foster Homes	Total Deduction	
	Low	High
Number Fosters < 6 months	\$1,287,916	\$6,439,584
Number Fosters > 6 months	\$18,310,000	
Total Estimated Deduction Claims	\$19,597,916	\$24,749,584

However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 509 (2014).

Tax Rate	5.4%	5.3%	5.2%	5.1%
Low Estimate	\$1,058,287	\$1,038,690	\$1,019,092	\$999,494
High Estimate	\$1,336,478	\$1,311,728	\$1,286,978	\$1,262,229

Therefore, B&P estimates that this proposal could reduce Total State Revenue (TSR) and General Revenue (GR) by \$1,058,287 to \$1,336,478 (top tax rate 5.4%) or by \$1,038,690 to \$1,311,728 (top tax rate 5.3%) in Fiscal Year 2023. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$999,494 to \$1,262,229 annually.

For purposes of this fiscal note, Oversight will report the impact for **each** fiscal year using an Individual Income Tax Rate of 5.3%.

Officials from the **Missouri Department of Revenue (DOR)** state, for all tax years beginning on or after January 1, 2022, a taxpayer shall be allowed a deduction for expenses incurred directly by the taxpayer in providing care as a foster parent to one or more children in this state. The deduction cannot exceed \$2,500 per single taxpayer and \$5,000 per combined return for those children in the taxpayer's custody for more than 6 months. The deduction amount shall be on a pro-rata basis determined by DOR if the child is placed for less than 6 months. DOR notes if at 6 months a person gets the full \$2,500 as a single filer, then the proportional share would be approximately \$417 per month the child is in the home. DOR assumed the monthly amounts as follows:

Length of Fostering	Single Filer	MFC
1 month	\$417	\$833
2 months	\$833	\$1,667
3 months	\$1,250	\$2,500
4 months	\$1,667	\$3,333
5 months	\$2,083	\$4,167

The Missouri Department of Social Services provided the following information regarding the foster care program:

- The total number of kids in foster care as of 11/30/2020 was 13,875.
- The number of kids in a foster home or relative placement for more than 6 months 6,087
- The number of kids in a foster home or relative placement for less than 6 months 4,950
- The number of foster homes or relative homes serving those kids 6,338
- Number of single person foster homes were 2,261
- Number of two person foster homes were 4,077
- Number of foster homes that served kids less than 6 months were 1,881
- Number of foster homes that served kids more than 6 months were 4,457

Using the information provided by the Missouri Department of Social Services, DOR was able to make the following assumptions to calculate the impact.

This proposal begins with the tax year starting January 1, 2022. The first returns filed claiming the deduction would start being received January 2023 (Fiscal Year 2023).

A deduction is not a reduction of tax on a dollar for dollar basis but on a proportional basis based on the Individual Income Tax rate.

Using the number and filing status of foster homes DOR was able to apportion the number of kids in the foster homes over/under six months to each taxpayer filing category.

Since the proposal allows taxpayers who have fosters kids more than 6 months to claim the maximum amount (\$2,500 for singles and \$5,000 for married filing joint) DOR was able to determine that the single filers could claim \$3,975,000 and the married filing joint could claim \$14,335,000 for a total of \$18,310,000. Applying the 5.3% tax rate would result in a loss to GR of \$970,430 ($\$18,310,000 * 5.3\%$).

Since foster homes that have kids less than 6 months can claim a deduction in a proportional amount, DOR estimated a range for these filers. DOR estimated an impact for the single filers of \$279,583 to \$1,397,917. This would result in a loss to GR of \$14,818 to \$74,090.

Those foster homes with kids less than 6 months and filing as married filing joint could claim from \$1,008,333 to \$5,041,667 for a resulting loss to GR of \$53,442 to \$267,208.

Combined, this proposed legislation could potentially result in a loss to GR of \$1,038,690 to \$1,311,728.

DOR notes this proposed legislation would require taxpayers claiming the deduction to provide an affidavit with their Missouri tax return. DOR will work with the Missouri Department of Social Services to create a form that foster parents can identify their eligibility for this deduction.

DOR anticipates the need for one (1) FTE Associate Customer Service Representative (\$24,360 annual salary, \$20,244 fringe benefits) for every 14,700 errors created, one (1) FTE Associate Customer Service Representative for every 5,700 pieces of correspondence generated, one (1) part time employee for the new line item on tax forms, and a one-time cost of \$2,000 for forms and programming changes.

Oversight notes DOR anticipates the need for two (2) FTE Associate Customer Service Representatives, one (1) part time employee, and a one-time cost of \$2,000 for forms and programming changes.

Based on the estimates provided by DOR, the maximum number of returns in which the deduction would be claimed on totals 6,338. This is significantly less than the 14,700 errors needed to justify additional FTE. Oversight further assumes not every return will cause correspondence to be generated.

Therefore, for purposes of this fiscal note, Oversight assumes DOR can absorb the responsibilities associated with this new deduction with existing resources. Should DOR experience the number of errors and/or correspondence to justify additional FTE, DOR could seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Social Services (DSS)** state this proposed legislation would require DSS to create a process to calculate the number of months each foster parent had the child(ren) placed in their care. A file would be created of all foster parents that cared for children within the year. An affidavit would need to be printed and mailed to each foster parent identified for tax purposes post-marked on or before January 31st.

DSS assumes the proposed legislation will cause IT consulting costs of approximately \$238,032 in Fiscal Year 2022.

For purposes of this fiscal note, Oversight will include DSS's IT cost's associated with this proposed legislation.

In response to the previous version of this proposed legislation, officials from the **Office of the Secretary of State (SOS)** noted many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what SOS can sustain with SOS's core budget. Therefore, SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

In response to the previous version of this proposed legislation, officials from the **Joint Committee on Administrative Rules** assumed this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Oversight notes this proposed legislation creates an Individual Income Tax deduction for the expenses directly incurred by a taxpayer for providing care as a foster parent to one or more children in this state.

The Individual Income Tax deduction created is for all tax years beginning on or after January 1, 2022 and shall be equal to the amount of expenses directly incurred for providing care as a foster parent, but may not exceed \$2,500 per taxpayer (\$5,000 for individuals who file a tax return with a filing status of Married Filing Combined) provided the taxpayer provides care as a foster parent for at least six months during the tax year. Should a taxpayer provide care as a foster parent for less than six months during the tax year, the deduction shall equal a pro-rata amount which will be calculated using the maximum deduction of \$2,500 per taxpayer.

DOR and DSS are to collaborate to establish and implement the procedures necessary to verify that a taxpayer is a foster parent.

This proposed legislation would sunset December 31st, 2028.

Oversight notes pre-tax deductions do not reduce revenue(s) on a dollar-for-dollar basis. The estimated amount of deduction must be multiplied by the applicable tax rate to estimate the impact to state revenue(s)

The current Individual Income Tax rate is subject to be reduced by one-tenth of one percent (0.1%) three (3) more times pursuant to [SB 509 \(2014\)](#). A reduction in the rate of tax shall **only** occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million.

The Individual Income Tax rate for Tax Year 2021 is 5.4%

Oversight anticipates the Individual Income Tax rate will be reduced from 5.4% to 5.3% for **Tax Year 2022**. This assumption is largely based on the extended tax filing due date for Tax Year 2019 which pushed revenues that would have normally be recognized in Fiscal Year 2020 into Fiscal Year 2021.

Once the tax rate is reduced from 5.4% to 5.3%, two more rate reductions could occur in future, but separate, tax years, pursuant to SB 509 (2014).

Oversight does not anticipate the **fiscal years reported in this fiscal note** will be impacted by **additional** rate reductions. Therefore, for purposes of this fiscal note, the impact for **each** fiscal year reported will be calculated using an Individual Income Tax Rate of 5.3%.

For purposes of this fiscal note, Oversight will report the IT consulting costs, as stated by DSS in Fiscal Year 2022. Oversight will report the fiscal impact (range), as a result of the tax deduction, as stated by B&P and 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 143.1170 – Income Tax Deduction for Child Foster Care Services</u>	\$0	(\$1,038,690) to (\$1,311,728)	(\$1,038,690) to (\$1,311,728)
<u>Cost – DSS – Section 143.1170 – IT Consulting</u>	(\$238,032)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$238,032)	<u>(\$1,038,690) to (\$1,311,728)</u>	<u>(\$1,038,690) to (\$1,311,728)</u>

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

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposed legislation, beginning on January 1, 2022, allows a taxpayer a tax deduction for expenses incurred directly by the taxpayer in providing care as a foster parent to one or more children in this state. The amount of the deduction will be equal to the amount of expenses directly incurred by the taxpayer in providing such care; provided that: (1) If the taxpayer provides care as a foster parent for at least six months during the tax year, the total amount of the deduction claimed under this bill will not exceed \$2,500 per taxpayer, or \$5,000 per taxpayer if married and filing a combined return; and (2) If the taxpayer provides care as a foster parent for less than six months during the tax year, the maximum deduction limits described will still apply, but the limits will be reduced on a pro rata basis.

The Department of Revenue will collaborate with the Children's Division of the Department of Social Services in order to establish and implement a procedure to verify that a taxpayer claiming the deduction is a foster parent.

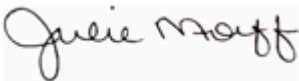
Each taxpayer claiming the deduction must file an affidavit with their income tax return. The affidavit will affirm that they are a foster parent and that they are entitled to the deduction in the amount claimed on their tax return.

The provisions of this bill sunset on December 31st, six years after the effective date.

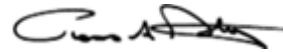
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Social Services
Office of Secretary of State
Joint Committee on Administrative Rules



Julie Morff
Director
January 25, 2021



Ross Strobe
Assistant Director
January 25, 2021