

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3320-01  
Bill No.: HB 1139  
Subject: Taxation and Revenue - Income; Children and Minors  
Type: Original  
Date: March 8, 2004

---

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
General Revenue	(\$1,500,000 to Unknown)	(Unknown - Greater than \$100,000)	(Unknown - Greater than \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(\$1,500,000 to Unknown)</b>	<b>(Unknown - Greater than \$100,000)</b>	<b>(Unknown - Greater than \$100,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Total Estimated Net Effect on Other State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\*The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation removes the \$2 million cap that currently applies to the Adoption Tax Credit. The Division of Taxation will see an increase in the number of credits, but will not see an increase in workload due to the time currently spent denying credits over the \$2 million cap. Therefore, there is no impact to DOR.

As of January 23, 2004, of this fiscal year, DOR has approved credits for 786 returns, totaling \$2,000,000. It has also denied 566 returns due to the cap being reached, totaling \$1,496,543. Because the amount denied is only for half of the fiscal year, DOR believes the total loss to general revenue will be more than \$1.5 million. However, DOR cannot estimate the total loss to general revenue and assumes it will be \$1.5 million to UNKNOWN.

Officials from the **Department of Social Services** assume if this bill is passed, there could possibly be more Form ATC's (Adoption Tax Credit) to be signed and tracked by the Children's Division county staff for the next four tax years. Those families who have adopted prior to January 1, 2005, will still be eligible for the tax credit, regardless of whether or not their adoption was international or domestic. Removing the cap will enable more of these families to receive the tax credit.

ASSUMPTION (continued)

The State Auditor's office performed an audit on this tax credit, revealing that over 90% of the tax credits requested were for international adoptions. This bill will allow an unlimited number of tax credit requests each year for the next four years. Currently, the \$2,000,000 cap has been met for the 2003 tax year, as it was in 2002. In 2003, the cap was reached the same day the tax credits were opened (07-01-03). Approximately 560 tax credit requests were received that day.

The majority of families who adopt Missouri children with special needs qualify for the Missouri Adoption Subsidy program and choose this method of assistance over the tax credit. Families cannot apply for the tax credit if they have received local, state or federal benefits toward the adoption of their child.

Once the change in statute is in place, allowing only domestic adoptions to receive this tax credit, it is anticipated that the number of tax credit applications will drop dramatically, as most of the special needs children adopted within the United States are eligible for some type of adoption subsidy.

DOS assumes this bill will have no fiscal impact to the Children's Division. Impact to State revenues is deferred to the Department of Revenue for those revenues expected to rise or fall.

Officials from the **Office of Administration - Budget and Planning (BAP)** assume the proposal removes the cap on the existing special needs adoption tax credit, which will increase the number of individuals claiming the credit. It also creates a new tax credit for the adoption of domestic special needs children. These changes could significantly decrease general revenue. The proposed legislation should not result in additional costs or savings to BAP.

**Oversight** assumes the anticipated amount of credits to be submitted over the annual cap this year could be a result of the previous years' buildup of denied claims plus additional claims from this year. Therefore, if the cap on the tax credits was taken out of statutes, the first fiscal year (FY 2005) could have a large impact of previous year' denied credits being allowed, and then future years not so large. Therefore, with this possibility and with the lack of information available regarding the number of special needs adoptions in the state and the non-recurring expenses related to them, **Oversight** will utilize DOR's estimate of (\$1.5 million to Unknown) for FY 2005, but for future years, assume (Unknown - greater than \$100,000) in losses to GR.

These tax credits can be sold to and utilized by insurance companies against their premium tax liability. Premium tax revenue is split evenly between General Revenue Fund and the County Foreign Insurance Fund which is later distributed to school districts. Therefore, **Oversight** has footnoted the possibility that some of the additional tax credits resulting from this proposal could

ASSUMPTION (continued)

be utilized by insurance companies and therefore, reduce revenue to the local school districts.

**This proposal would reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
---	---------------------	---------	---------

**GENERAL REVENUE FUND**

<u>Loss</u> - General Revenue Increase in adoption tax credits	(\$1,500,000 to <u>Unknown</u> )	(Unknown - Greater than <u>\$100,000</u> )	(Unknown - Greater than <u>\$100,000</u> )
---	-------------------------------------	--	--

<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*</b>	<b>(\$1,500,000 to <u>Unknown</u>)</b>	<b>(Unknown - Greater than <u>\$100,000</u>)</b>	<b>(Unknown - Greater than <u>\$100,000</u>)</b>
--	--	--	--

**\*The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses could utilize the tax credit for assistance for an employee adopting a special needs child as a result of this proposal.

## DESCRIPTION

This proposal modifies the adoption tax credit by eliminating the \$2 million aggregate cap on the credit. The bill also creates a tax credit for the adoption of domestic special needs children, to be known as Rachael's Law. Beginning January 1, 2005, individuals who proceed in good faith with the adoption of a domestic special needs child are eligible for a tax credit of up to \$10,000 for nonrecurring adoption expenses.

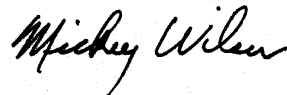
Businesses providing funds to an employee to assist with the adoption of a domestic special needs child are eligible for a tax credit of up to \$5,000 for nonrecurring adoption expenses.

The provisions of the section creating the domestic special needs child adoption tax credit will expire six years from 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

Department of Social Services  
Department of Revenue  
Office of Administration  
Budget and Planning



Mickey Wilson, CPA  
Director  
March 8, 2004