

Department of Legislative Services  
 Maryland General Assembly  
 2023 Session

FISCAL AND POLICY NOTE  
 Third Reader

Senate Bill 141

(Senator Elfreth, *et al.*)

Budget and Taxation

Ways and Means

**Income Tax - Subtraction Modification for Adoption Expenses - Alterations**

This bill alters the value of the subtraction modification under the Maryland income tax for the adoption of a child. Specifically, for a taxpayer who adopts a child with a special need, the value of the subtraction increases to \$12,000, regardless of whether the child is a State resident at the time of adoption. For a taxpayer who adopts a child without a special need, the value of the subtraction increases to \$10,000, regardless of whether the child is a State resident at the time of adoption. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by an estimated \$91,000 annually beginning in FY 2024. General fund expenditures increase by \$43,000 in FY 2024 only.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$91,000)	(\$91,000)	(\$91,000)	(\$91,000)	(\$91,000)
GF Expenditure	\$43,000	\$0	\$0	\$0	\$0
Net Effect	(\$134,000)	(\$91,000)	(\$91,000)	(\$91,000)	(\$91,000)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local revenues decrease by an estimated \$54,000 annually beginning in FY 2024. Local expenditures are not affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** A taxpayer may claim a subtraction modification against Maryland income tax for adoption expenses, including reasonable and necessary adoption fees, court costs, attorney costs, and other expenses, up to specified maximum dollar amounts. The value of the credit is higher for a taxpayer who adopts a child who the State determines is a child with a special need, as specified, and the adoption is made through a private, nonprofit, licensed adoption agency or a public child welfare agency. In addition, the value of the credit is higher for a taxpayer who adopts a child who is a State resident at the time of adoption.

**Exhibit 1** shows a comparison of the value of the subtraction under current law and under the bill.

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### Exhibit 1 Value of State Subtraction Modification for Adoption Expenses Current Law vs. the Bill

	<u>Under Current Law</u>	<u>Under the Bill</u>
<b><u>Adoption of a Child with a Special Need</u></b>		
Child is a State resident at time of adoption	Up to \$6,000 of qualified expenses	\$12,000
Child is not a State resident at time of adoption	Up to \$3,000 of qualified expenses	\$12,000
<b><u>Adoption of a Child without a Special Need</u></b>		
Child is a State resident at time of adoption	Up to \$5,000 of qualified expenses	\$10,000
Child is not a State resident at time of adoption	Up to \$2,000 of qualified expenses	\$10,000

Source: Department of Legislative Services

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**State Revenues:** General fund revenues decrease by an estimated \$91,000 annually beginning in fiscal 2024 due to increases in the value of subtraction modifications claimed against Maryland income tax. This estimate is based on historic claims for the existing subtraction modification and assumes that the number of claimants remains consistent with historic levels. According to the Comptroller's Office, utilization of the subtraction

modification for adoption expenses has remained relatively stable since 2013, with a historic average of about 300 claimants per year and an average claim of approximately \$5,000.

**State Expenditures:** General fund expenditures for the Comptroller's Office increase by \$43,000 in fiscal 2024 only for one-time changes to the Comptroller's tax systems.

**Local Revenues:** Local revenues decrease by an estimated \$54,000 annually beginning in fiscal 2024 due to increases in the value of subtraction modifications claimed against the personal income tax.

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### **Additional Information**

**Prior Introductions:** Similar legislation has not been introduced within the last three years.

**Designated Cross File:** HB 180 (Delegate Reznik, *et al.*) - Ways and Means.

**Information Source(s):** Comptroller's Office; Department of Human Services; Department of Legislative Services

**Fiscal Note History:** First Reader - January 24, 2023  
rh/hlb Third Reader - March 17, 2023

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