

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE  
Revised

Senate Bill 26 (Senator Ferguson)  
Budget and Taxation

Referred to Ways and Means

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

This enrolled bill increases the maximum subtraction modifications for adoption expenses. The maximum subtraction for expenses incurred for children with special needs is increased from \$2,000 to \$3,000. The maximum subtraction for expenses incurred for children without special needs is increased from \$1,000 to \$2,000.

This bill is effective July 1, 1996 and applies to all tax years beginning after December 31, 1995.

**Fiscal Summary**

**State Effect:** General fund revenues could decline by \$14,500 in FY 1997, increasing by about 8% per year in the out-years. Expenditures are not affected.

| (in dollars)    | FY 1997    | FY 1998    | FY 1999    | FY 2000    | FY 2001    |
|-----------------|------------|------------|------------|------------|------------|
| GF Revenues     | (\$14,500) | (\$15,700) | (\$16,900) | (\$18,300) | (\$19,700) |
| GF Expenditures | 0          | 0          | 0          | 0          | 0          |
| Net Effect      | (\$14,500) | (\$15,700) | (\$16,900) | (\$18,300) | (\$19,700) |

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

**Local Effect:** Local revenues could decline by about \$7,900 in FY 1997, increasing by about 8% per year. Expenditures are not affected.

## Fiscal Analysis

**State Revenues:** The maximum subtraction for either type of adoption increases by \$1,000 under this bill. About 250 children were adopted through private agencies in 1994, an annual increase of 8% over 1992 adoptions. Private agencies are limited to \$7,000 in fees per adoption under current law, so all of the adoptive parents are presumably entitled to the full subtraction.

For 1996, an estimated 290 adoptions will occur, resulting in a subtraction increase of \$290,000. At the 5% top marginal income tax rate, the revenue loss will total \$14,500 in fiscal 1997, when tax year 1996 returns are filed. If adoptions continue to grow at 8% per year, the revenue loss will increase likewise.

Costs for other means of adoption, such as through public agencies or by relatives, are assumed to be minimal and covered by the current subtraction amount.

**State Expenditures:** Any increase in administrative expenditures can be absorbed within the existing budgeted resources of the Office of the Comptroller.

**Local Revenues:** Local governments will lose piggyback revenues of about 54% of the State loss in each fiscal year. In fiscal 1997, the loss could total \$7,900.

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**Information Source(s):** Office of the Comptroller (Revenue Administration Division), Department of Human Resources, Department of Fiscal Services

**Fiscal Note History:** First Reader - January 17, 1996  
ncs Revised - Senate Third Reader - March 19, 1996  
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