

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
 Revised

Senate Bill 316 (Senator Green)

Budget and Taxation

Income Tax - Subtraction Modification for Adoption Expenses

This bill increases the maximum amounts allowed as a subtraction modification under the income tax for reasonable and necessary adoption fees, court costs, attorney fees, and other expenses incurred by adoptive parents: from \$3,000 to \$6,000 for a child determined to be a child with a special need and from \$2,000 to \$5,000 for a child without a special need. In order to claim the subtraction modification, the adoption must be made through a private, not for profit, licensed adoption agency or a public child welfare agency.

Adoptive parents who adopt children who are not Maryland residents at the time of adoption may claim the current subtraction modification of \$3,000 for a child determined to be a child with a special need and \$2,000 for a child without a special need.

The bill takes effect July 1, 2000 and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$41,200 in FY 2001. Future years reflect a constant number of adoptions and applicable State income tax rates. No effect on expenditures.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$41,200)	(\$40,700)	(\$40,300)	(\$40,300)	(\$40,300)
GF Expenditures	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$41,200)	(\$40,700)	(\$40,300)	(\$40,300)	(\$40,300)

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

Local Effect: Local government revenues would decrease by approximately \$22,655 for FY 2001.

Small Business Effect: None.

Analysis

Current Law: Adoptive parents are able to take a subtraction modification under the income tax up to a maximum of \$3,000 for a child determined to be a child with a special need and \$2,000 for a child without a special need for reasonable and necessary adoption fees, court costs, attorney fees, and other expenses incurred.

Background: Under federal law, adoptive parents are able to claim a nonrefundable credit up to a maximum of \$6,000 for a child determined to be a child with a special need and \$5,000 for a child without a special need for qualified adoption expenses, including adoption fees, court costs, attorney fees, and other expenses.

The credit cannot be claimed if the expenses have already been deducted; the adoptive parents receive a federal, State, or local grant to cover the expenses; or if the expenses are paid under an adoption assistance program. The unused portion of the credit can be carried forward for up to five years.

The credit is phased out for taxpayers with a modified adjusted gross income above \$75,000 and is fully phased out at \$115,000.

State Fiscal Effect: According to the Department of Human Resources (DHR), there were 1,488 adoptions recorded in fiscal 1999 of which approximately 90% were of children who were Maryland residents at the time of adoption. The total consists of the following categories:

No Placement Adoptions	207
Public Agency Adoptions	661
Independent Adoptions	328
Private Agency Adoptions	<u>292</u>
	1,488

For public agency adoptions, most of the fees are paid by the government. Parents may pay about \$100. Therefore, adoptive parents would be able to claim a subtraction of \$100 for these adoptions. Fees paid for private agency adoptions generally exceed the amounts that could be subtracted as a result of the bill. The estimate assumes that: (1) 90% of all children adopted in Maryland are Maryland residents at the time of adoption; and (2) the maximum subtraction allowed (an increase of \$3,000 over current law) is taken for each private agency adoption and that the number of these adoptions remains constant.

Based on the assumptions stated above, general fund revenues would decrease by approximately \$41,153 in fiscal 2001 (263 private agency adoptions multiplied by \$3,000 multiplied by the applicable State tax rate and 595 public agency adoptions multiplied by \$100 multiplied by the applicable State tax rate).

Future year estimates reflect a constant number of adoptions and reduced income tax rates in accordance with current law.

To the extent that more adoptions take place each year, the cost of the subtraction would increase.

Local Fiscal Effect: Local government revenues would decrease by approximately 2.67% of the change in the subtraction, or 55% of the State revenue impact. For fiscal 2001, the total local government loss would be approximately \$22,655.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Human Resources, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2000
nncsjr Revised - Senate Third Reader - April 3, 2000

Analysis by: Mike Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510