

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7571

BILL NUMBER: HB 1879

DATE PREPARED: Jan 24, 1999

BILL AMENDED:

SUBJECT: Adjusted Gross Income Tax deductions for Adoption Expenses.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides an Individual Adjusted Gross Income Tax deduction for expenses paid as the result of a finalized adoption of a child.

Effective Date: January 1, 2000.

Explanation of State Expenditures: The Department of Revenue will have expenses associated with changing tax forms, instructions and computer programs to accommodate this new deduction.

Explanation of State Revenues: This bill provides an Individual Adjusted Gross Income Tax deduction for expenses paid as the result of a finalized adoption of a child. Eligible expenses include court costs, putative father registry fee, adoption history fee, actual and reasonable travel expenses and telephone services for the adoptive parent. The deduction also included lawful adoption expenses that are enumerated or approved by the court supervising the adoption. These include the following:

- 1) attorney's fees;
- 2) hospital and medical expenses for childbirth and pregnancy incurred by the birth mother;
- 3) charges and fees of a child placing agency;
- 4) psychological expenses incurred by the birth parents;
- 5) housing, utilities and phone service for the birth mother during the pregnancy and six weeks after childbirth;
- 6) maternity clothing expenses;
- 7) travel expenses of the birth mother related to the pregnancy or adoption;
- 8) other necessary expenses not to exceed \$1,000; and
- 9) other charges and fees approved by the court, including reimbursement for wages lost.

This tax deduction would not be allowed for expenses incurred for adoptions that are funded by a federal, state or local program.

The deduction would not be allowed if the taxpayer claimed another tax credit or deduction for the expenses under other federal or state law. The Small Business Job Protection Act of 1996, or Public Law 104-188 (H.R. 3448) recently established a federal adoption tax credit effective for tax years beginning January 1, 1997. This federal credit would grant a \$5,000 tax credit for some adoptions and expenses which are covered under this bill. The maximum credit of \$5,000 (or \$6,000 for special needs adoptions) is phased out for taxpayers who earn over \$75,000 and less than \$115,000. The federal credit is not refundable but may be carried forward for five years. This federal tax credit also is set to expire December 31, 2001, except for the special needs adoptions.

Based on information from the Division of Family and Children, adoption petitions have ranged from 2,300 to 3,000 over the last five years. Accounting for different types of adoptions and eligible expenses which could be eligible for the new federal tax credit and the state income tax deduction, the initial revenue loss could be \$5.6 M annually. Once the federal credit expires the revenue loss could average \$7.1 M annually.

Individual Income Tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties that have adopted the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and/or the County Economic Development Income Tax (CEDIT), will experience a loss in revenue generated by these taxes. This is because the tax base for each of these taxes is Indiana Adjusted Gross Income which will be reduced by this bill. The loss will be reflected in the certified distribution to the counties. A list of adopting counties for each of the taxes can be found in the *Indiana Handbook of Taxes, Revenues, and Appropriations*, Indiana Legislative Services Agency, Fiscal Year 1998.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Department of Revenue; Family and Social Services Administration.