

Library and Local Government Support Fund (LLGSF). These funds receive 4.2%, 0.6%, and 5.7% of state income tax collections, respectively.

- Total losses to the three LGFs are estimated to be up to \$127,000 in FY 2000 and up to \$146,000 in FY 2001.

Detailed Fiscal Analysis

The bill provides for a \$500 non-refundable personal income tax credit for minor child adoptions. However, adoptions of minor children made by the child's stepparent are excluded from receiving the tax credit.

According to the Office of Family and Children Services, there were 1,268 finalized public agency adoptions in the state of Ohio in 1996. This number already excludes adoptions in which the child was not in legal custody of the state, such as stepparent adoptions.

Private agency adoptions also qualify for the tax credit. Although data on finalized adoptions are difficult to acquire, it is estimated that approximately 317 finalized adoptions took place through private agencies in 1996. This estimate is based on the 1995 ratio of private to public agency permanent custody holdings, or approximately 24.9%.

In 1996, therefore, LBO estimates that a total of 1,585 finalized adoptions that qualify for the adoption tax credit took place. The Ohio adoption rate up to 1996 had been growing at an average of roughly 15% per year. If adoption rates since 1996 have continued to grow at 15% per year, 2,411 qualifying adoptions will occur in Ohio in taxable year 1999, and 2,772 qualifying adoptions will be finalized in taxable year 2000.

Without assuming any behavioral impact from the credit, if everyone eligible for the credit uses it, maximum estimated revenue loss is equal to \$1.2 million in FY 2000 and \$1.4 million in FY 2001. Since the credit is nonrefundable, the actual revenue loss should be somewhat less than \$1.2 million to \$1.4 million. How large the credit will actually be depends on the tax liability of adoptive parents. Some will have less than \$500 in tax liability and thus not be able to claim the whole credit. This will reduce the total cost below the \$1.2 million to \$1.4 million maximum.

We must note that the available adoption statistics come from the period before the federal adoption credit went into effect. This credit was part of the minimum wage bill that was enacted in 1996, with the adoption credit first taking effect for taxable year 1997. The federal adoption tax relief includes:

- Up to \$5,000 non refundable income tax credit for adoption related expenses per child (domestic and international adoption).
- Up to \$6,000 non-refundable income tax credit for special needs adoptions per child (domestic and international adoption).
- Up to \$5,000 in employer adoption assistance benefits per child can be exempt from an employee's taxable income (domestic and international adoption). However, Social Security and Medicare tax (FICA), and unemployment tax (FUTA) would still be owed.
- Full credit is available for families whose federal adjusted gross income (FAGI) is less than \$75,000 per year, and phases out completely for families whose FAGI exceeds \$115,000 per year.
- Credits in excess of the family's federal tax bill can be carried forward for up to 5 years.

- A five year "sunset provision" which means that in 5 years the law will be automatically repealed unless Congress legislates otherwise. The one **exception** is the \$6,000 tax credit for special needs adoption (domestic only) which will remain.

Eligible expenses for the federal credit include adoption and attorney fees, court costs, and any other expenses required to complete an adoption, even the necessary expenses of foreign travel, such as transportation, food, and lodging. It also includes any amounts expended in unsuccessful adoption attempts.

The federal credit will make adoption more affordable and thus could increase the number of adoptions in Ohio, thus making the proposed Ohio credit somewhat more expensive than we have estimated here.

The table below illustrates the impact of the proposed credit on a hypothetical couple who adopts a child and has \$500 of tax liability before the credit in tax year 2000, so that their liability is reduced to zero. This couple's Ohio adjusted gross income (OAGI) is \$30,534. In general, couples in the same situation with higher incomes will also be able to claim the full \$500 Ohio credit, while couples with lower incomes will not be able to claim the whole credit.

Couple adopts 1 child, tax year 2000	
Ohio Adjusted Gross Income (OAGI)	\$ 30,534.30
Personal exemptions	3
Exemption amount after indexing	\$ 1,100
Total exemption amount	\$ 3,300
Ohio Taxable Income (OTI)	\$ 27,234.30
Tax before credits - statutory rates	\$ 768.23
child care credit	\$ 120.00
personal credit	\$ 60.00
Tax before joint filer credit	\$ 588.23
joint filer credit percentage	15%
joint filer credit amount	\$ 88.23
Tax after joint filer credit	\$ 500.00
Ohio adoption credit	\$ 500.00
Net state tax liability	\$ 0.00
Note: federal tax credit would be \$5,000 for a non-special needs child, as long as expenses exceed \$5,000.	

LBO currently does not have very good information on how many adoptive parents in Ohio fit this profile. According to the National Adoption Information Clearinghouse (NAIC), fewer than 20% of families adopting independently earn less than \$30,000. Nearly 2/3 of these

families earn \$50,000 or more annually. There are clearly more families adopting children from the public child welfare system who are earning \$30,000 or less, but no exact number is available.

The total revenue loss must be divided between the state GRF and the three local government funds. Given that 89.5% of the personal income tax goes to the state GRF, and the remaining 10.5% to local government funds (LGFs), the state will lose \$1.08 million in FY 2000, and \$1.24 million in FY 2001. The LGFs will lose approximately \$127,000 in FY 2000 and \$146,000 in FY 2001. This loss can be expected to increase increases by 15% annually in the short run because of the expected growth in the number of adoptions. Obviously, one would expect that in the long run the rate of growth would eventually slow down, although the credit might provide the incentive for additional adoptions.

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APPENDIX - The Federal Adoption Credit

Below is an example of how the federal adoption credit tax benefits might work for a family. The example assumes total adoption expenses equal \$12,000 (the national average is \$10,000 — \$15,000). The family's employer reimburses \$2,500 of adoption expenses (again close to the national average). The family pays approximately \$2,000 in federal taxes each year, before the credit.

Credit and Exemption	\$12,000	Adoption Expenses
	- 2,500	Employer reimbursement (non-taxable income)
	\$9,500	Expenses eligible for tax credit
	- <u>5,000</u>	Tax credit (maximum \$5000)
	\$4,500	Adoption expenses from family
The Carry-Over	\$5,000	Credit amount from eligible adoption expenses
	2,000	First year tax bill (family tax bill completely refunded)
	\$3,000	Remaining credit carried over to next year
	\$3,000	Carried over credit
	- <u>\$2,000</u>	Second year tax bill (family tax bill completely refunded)
	\$1,000	Remaining credit carried over to next year
	\$1,000	Carried over credit
	- <u>\$2,000</u>	Third year tax bill
	\$1,000	Taxes owed by family (already deducted through payroll taxes)