

March 15, 2012

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 426 by Senate Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 426 is respectfully submitted to your committee.

SB 426 would expand the adoption tax credit to allow taxpayers to receive a \$3,500 state tax credit for adopting a child who is at least five years old and who is in the custody of the Department of Social and Rehabilitation Services, or a child with special needs. The tax credit would be effective beginning in tax year 2012.

The Department of Revenue estimates that SB 426 would decrease State General Fund revenues by \$900,000 in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
(Dollars in Thousands)

| Receipt Description | Consensus Revenue Estimates (Nov. 4, 2011) | Change in Revenue FY 2013 | Proposed Adjusted CRE FY 2013 |
|------------------------|--|---------------------------------|-------------------------------------|
| Motor Carrier | \$ 21,000 | \$ -- | \$ 21,000 |
| Income Taxes: | | | |
| Individual | 3,065,000 | (900) | 3,064,100 |
| Corporate | 240,000 | -- | 240,000 |
| Financial Institutions | 24,000 | -- | 24,000 |
| Excise Taxes: | | | |
| Retail Sales | 2,200,000 | -- | 2,200,000 |
| Compensating Use | 335,000 | -- | 335,000 |
| Cigarette | 92,000 | -- | 92,000 |

| | | | |
|------------------------|----------------|-----------|----------------|
| Corporate Franchise | 6,000 | -- | 6,000 |
| Severance | 102,800 | -- | 102,800 |
| All Other Excise Taxes | 96,000 | -- | 96,000 |
| Other Taxes | <u>141,000</u> | <u>--</u> | <u>141,000</u> |
| Total Taxes | \$6,322,800 | (\$ 900) | \$6,321,900 |
| Other Revenues: | | | |
| Interest | \$ 7,400 | \$ -- | \$ 7,400 |
| Transfers | (90,300) | -- | (90,300) |
| Agency Earnings | <u>51,500</u> | <u>--</u> | <u>51,500</u> |
| Total Other Revenues | (\$ 31,400) | \$ -- | (\$ 31,400) |
| Total Receipts | \$6,291,400 | (\$ 900) | \$6,290,500 |

The fiscal effect to state revenues during subsequent years would be as follows:

| | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|--------------------|----------------|----------------|----------------|----------------|
| State General Fund | (\$1,100,000) | (\$1,200,000) | (\$1,400,000) | (\$1,600,000) |

To formulate these estimates, the Department of Revenue reviewed data on adoptions from the Department of Social and Rehabilitation Services. It is estimated that there will be 674 final adoptions of children age five and above in calendar year 2012. Under current law, these adoptions would qualify for a tax credit of \$1,500, and the provisions of SB 426 would increase the tax credit allowed to \$3,500. The Department estimates that the bill would provide \$1,348,000 in additional adoption tax credits in tax year 2012. However, because the state tax credit would be non-refundable, it is assumed that only 67.0 percent of the credits could be used by Kansas taxpayers in tax year 2012. Given these assumptions, the estimated reduction in income tax receipts in tax year 2012, or FY 2013, would be approximately \$900,000 (\$1,348,000 x 0.67). The fiscal effect in FY 2014 and each future fiscal year assumes that the number of adoptions will increase steadily and that approximately 25.0 percent of the carry forward amount of the tax credit will be used by taxpayers in the next fiscal year.

The Department of Revenue indicates it would require \$34,440 from the State General Fund in FY 2013 to implement the changes to the adoption tax credit. This bill would require modifications to the automated tax system. The required programming for this bill by itself (528 hours of in-house programming and 640 hours of implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Social and Rehabilitation Services indicates that the bill could have the potential to encourage more adoptions through a higher tax incentive and reduce the number of children in foster care. The agency indicates that it currently spends approximately \$1,500 per

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month in combined state and federal dollars for the foster care expenses for each child with special needs and provides approximately \$361 in adoption subsidies for each child with special needs who is adopted. The agency indicates that it would experience a net monthly savings of \$1,139 for each special needs child who is adopted out of foster care. However, the agency is unable to estimate the number of additional adoptions that will result from the bill and therefore is unable to estimate the amount of savings. Any fiscal effect associated with the passage of SB 426 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Jackie Aubert, SRS
Steve Neske, Revenue