

April 1, 2013

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2331 by Representative Davis, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2331 is respectfully submitted to your committee.

HB 2331 would allow a non-refundable income tax credit for qualifying adoption expenses. The tax credit would be 25.0 percent of the credit claimed against the taxpayer's federal income tax liability under Section 23 of the federal Internal Revenue Code, which authorizes the federal adoption tax credit. If the child adopted is a resident of the State of Kansas, the tax credit amount would increase to 50.0 percent. If the child adopted by the taxpayer is a resident of the State of Kansas and is a child with special needs, then the amount of the tax credit would increase to 75.0 percent. The bill would also provide an additional \$1,500 tax credit for the adoption of a child that is in the custody of the Department for Children and Families or a child with special needs. The bill would allow the taxpayer to claim the tax credit even if the qualifying adoption expenses are reimbursed by a public or private grant. Any unused portion of the tax credit could be carried forward until the total amount of the credit has been deducted. The credit would be effective beginning in tax year 2013. The bill would reinstate the adoption tax credit that expired on December 31, 2012. The bill would take effect upon its publication in the *Kansas Register*.

The Department of Revenue estimates that HB 2331 would decrease State General Fund revenues by \$1.4 million in FY 2014. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	(1,400)	2,383,600
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 1,400)	\$5,554,100
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 1,400)	\$5,462,900

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

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)

To formulate these estimates, the Department of Revenue reviewed data on the adoption tax credit program. The Department indicates that approximately \$1.4 million in adoption credits were claimed by 794 taxpayers in tax year 2010. The Department indicates that the claim form and instructions for the adoption tax credit are currently available for tax year 2012 and could be updated for tax year 2013 within existing resources if HB 2331 is passed. The bill would require the Department to review and process claims for adoption tax credits in FY 2014. If the Department determines that the costs associated with reviewing and processing claims for the adoption tax credit in FY 2014 cannot be absorbed within existing resources, a revised fiscal note will be prepared.

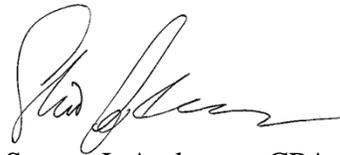
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The Department for Children and Families indicates that the bill could have the potential to encourage more adoptions through tax incentives and reduce the number of children in foster care. The agency indicates that it currently spends approximately \$1,450 per month in combined state and federal dollars for the foster care expenses for each child with special needs and provides approximately \$367 in adoption subsidies for each child with special needs who is adopted. The agency indicates that it would experience a net monthly savings of \$1,083 for each special needs child, under the custody of the Department for Children and Families, 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 HB 2331 is not reflected in *The FY 2014 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: Steve Neske, Revenue
Jackie Aubert, Children & Family Services