

Fiscal Estimate Narratives

DOR 11/6/2003

LRB Number	03-2998/1	Introduction Number	SB-292	Estimate Type	Original
Subject					
Individual income tax credit for adoption expenses					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, Wisconsin allows adoptive parents who are full-year Wisconsin residents to deduct from federal adjusted gross income up to \$5,000 in qualifying adoption expenses occurring during the year to which the claim relates and the prior two taxable years. Qualifying adoption expenses consist of adoption fees, court costs or legal fees relating to the adoption of a child.

Under federal law, a nonrefundable adoption expenses tax credit is allowed for up to \$10,000 of qualified adoption expenses, including adoption fees, court costs, attorney fees, and other costs that are directly related to the legal adoption of an eligible child by the taxpayer. An eligible child is defined as an individual under age 18 or physically or mentally incapable of caring for himself or herself.

The proposed bill would terminate the current Wisconsin deduction for adoption expenses effective taxable years beginning after December 31, 2003, and in its place enact, effective taxable years beginning on January 1, 2004, a nonrefundable adoption expenses credit that may be claimed by filers who are eligible for and claim the federal tax credit for adoption expenses. Under the proposed bill, a claimant may claim as a credit up to \$5,000 of qualified adoption expenses, to the extent that those expenses exceed the amount of the federal credit claimed in the year to which the claim relates. The credit is available to part-year residents and nonresidents of the state, prorated by the ratio of Wisconsin adjusted gross income to federal adjusted gross income. If the credit is not offset entirely against Wisconsin income taxes otherwise due, the remaining amount of the credit may be carried forward and credited against Wisconsin income taxes otherwise due for the following five taxable years. All provisions of the federal credit would be applicable to the proposed Wisconsin credit.

According to the Department of Health and Family Services, international adoptions cost \$18,000-\$30,000 on average and domestic adoptions, specifically independent or private adoptions, cost over \$15,000. This estimate assumes that public and step-parent adoptions would not qualify for the proposed credit because the out-of-pocket costs would be too low and step-parent adoptions are not eligible for the federal credit. There are about 750 domestic adoptions in Wisconsin each year. An estimated 600 international adoptions are expected in 2004 and the number of these adoptions is expected to grow at a rate of 10% annually, to 660 in 2005. Thus, credit claims are estimated to number 1,350 in 2004 and 1,410 in 2005. Assuming all are eligible to claim the full \$5,000, the amount of credit claimed is estimated to be \$6.75 million ($\$5,000 \times 1,350$) in 2004 and \$7.05 million ($\$5,000 \times 1,410$) in 2005.

Because the maximum credit of \$5,000 exceeds tax liability for most taxpayers likely to claim the credit, it is assumed that 75% of the amount claimed would be used to reduce tax liability in the year claimed and 25% would be carried forward to offset tax in the subsequent year. Further, eliminating the existing deduction for adoption expenses is expected to raise revenues by \$0.2 million annually. Thus, the revenue loss from this bill in FY05 on tax year 2004 claims is estimated to be \$4.9 million ($\$6.75 \text{ million} \times .75 - \0.2 million). The revenue loss in FY06, the first year of the full fiscal effect, on 2005 claims plus carryover credits from 2004, would be \$6.8 million [$(\$6.75 \text{ million} \times .25) + (\$7.05 \text{ million} \times .75) - \0.2 million].

The Department would incur one-time costs of \$18,700 for computer programming changes. Ongoing processing costs could be absorbed.

Long-Range Fiscal Implications

The cost of the state credit would grow each year with the annual increase in the number of international

adoptions.

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
One-time revenue loss of \$4.9 million on partial claims for 2004 and one-time costs of \$18,700 for computer programming changes in FY05.		
II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs Decreased Costs	
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$-6,800,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$-6,800,000
NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-6,800,000	\$
Agency/Prepared By		
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Authorized Signature		Date
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