DEPARTMENT OF AUDITS AND ACCOUNTS

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October 2, 2018

Honorable Marty Harbin
Senator
302-A Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1018)

Dear Senator Harbin:

The bill would modify the current $2,000 annual income tax credit for the adoption of a foster child by extending it to the adoption of any child who is not the natural child of the taxpayer or spouse. The tax credit would be earned in the year in which the adoption becomes final and each subsequent year until the year the adopted child reaches age 18. The tax credit cannot exceed the taxpayer's income tax liability, but unused portions may be carried forward indefinitely to apply to succeeding year's liability. The bill would be effective for tax years beginning on or after January 1, 2019.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by $1.8 million to $5.0 million in FY 2020 (**Table 1**), the first full year of the credit's effect. The revenue reduction would grow to $8.6 million to $18.9 million in FY 2023. The range is associated with assumptions related to the number of qualifying adoptions and the amount of the credit carried forward each year. FRC's analysis assumes that only adoptions finalized on or after the bill's effective date would be qualified for the purposes of the bill. In addition, FRC's analysis does not account for the potential impact this bill and HB 159 (2018) could have on the number of future adoptions. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1018

(*$ millions*)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Case	$1.0	$5.0	$9.5	$14.2	$18.9
Low Case	$0.3	$1.8	$3.8	$6.1	$8.6

Impact on State Expenditures

The Department of Revenue estimated that the bill would result in additional costs of $2,500 for internal training, modification of forms, and IT system testing.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The proposed bill would extend the existing foster child adoption credit to cover all adoptions by Georgia taxpayers. Data on domestic non-foster adoptions in the state is limited and somewhat dated; the estimates rely on data compiled by the federal Department of Health and Human Service's Administration for Children and Families (ACF) for their report "Trends in U.S. Adoptions: 2008-2012" as well as the National Council for Adoption (NCA) for "Adoption: by the Numbers", which includes estimates for 2014.

Both sources provide estimates of total domestic adoptions that are based on court records compiled by the National Center for State Courts (NCSC), but a discrepancy arises in their estimates between ACF's 2012 total and NCFA's 2014 number because the former apparently relies on counts of "incoming" adoption caseloads while the latter relies on "outgoing" caseloads, which for 2014 is 947 adoptions lower than the incoming number, 1,885 versus 2,832. For this reason, estimates are provided as high and low cases, using 2014 incoming and outgoing caseloads, respectively, as the starting point for projections. Adjustments and further calculations are made as follows:

- From total domestic adoptions in Georgia, foster adoptions are subtracted and international adoptions are added. Foster adoption (but not private adoption) statistics are reported annually by ACF in the Adoption and Foster Care Analysis and Reporting System. International adoptions are reported annually by the U.S. Department of State.
- From the 2014 base of total new non-foster adoptions, growth is projected in both cases at 1 percent per annum, approximately the average rate of growth in Georgia's population over the latest five years.
- It is assumed that only a portion of the credits earned or available to be claimed in a given year will be utilized against that year's tax liability and that a balance of unutilized credits will be carried forward. Based on limited data available from the Department of Revenue (DOR) for periods prior to 2014 (DOR currently only provides data on utilized credits, not claimed), the ratio of utilized-to-claimed foster adoption credits typically ran less than 50 percent. However, other similarly-sized credits taken by typically upper-middle class taxpayers tended to run somewhat higher ratios of utilized-to-claimed credits (i.e. a lower share carried forward). The rural physician credit, for example, ran 85-89 percent of claimed credits utilized the same year. Thus, for the high case, 85 percent of credits available in any year to be claimed are assumed to be utilized that year while for the low case, the ratio is assumed to be 50 percent. The balance of each is carried forward and available the following year.
- Finally, to reflect fiscal year state revenue effects, 25 percent of credits utilized against a given tax year's tax liability are assumed to affect collections in the fiscal year (FY) ending June 30 of that tax year (e.g. through estimated tax payments), with the balance affecting collections in the following FY.

Table 2 presents projections of the numbers of newly eligible adoptions and credits earned, utilized, and carried forward to be available the following year.

Table 2. Tax Year Adoptions and Credits

(*$ millions*)	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Total New Non-Foster Adoptions					
High	2,281	2,303	2,327	2,350	2,373
Low	1,285	1,298	1,311	1,324	1,338
Total Credits Earned					
High	$4.6	$9.2	$13.8	$18.5	$23.3
Low	$2.6	$5.2	$7.8	$10.4	$13.1
Credits Available (incl. carryforwards)					
High	$4.6	$9.9	$15.3	$20.8	$26.4
Low	$2.6	$6.5	$11.0	$15.9	$21.1
Credits Utilized					
High	$3.9	$8.4	$13.0	$17.7	$22.4
Low	$1.3	$3.2	$5.5	$8.0	$10.5
Credits Carried Forward					
High	$0.7	$1.5	$2.3	$3.1	$4.0
Low	$1.3	$3.2	$5.5	$8.0	$10.5