



## DEPARTMENT OF AUDITS AND ACCOUNTS

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STATE AUDITOR  
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January 3, 2020

Honorable Bert Reeves  
State Representative  
109 State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill (LC 33 8076-EC)

Dear Representative Reeves:

The bill would increase the existing income tax credit for the adoption of a qualified foster child from \$2,000 to \$6,000 per tax year for the first five years after adoption. After year five, a \$2,000 credit would be granted for each taxable year until the year that the adopted child reaches the age of 18. The total amount of the tax credit allowed per year shall not exceed the taxpayer's income tax liability, but any unused tax credit may be carried forward indefinitely to apply to the taxpayer's succeeding years' tax liability. The bill would be effective for taxable years beginning on or after January 1, 2020.

### Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated the bill would decrease state revenue \$1.4 million in FY 2021, with the amount growing to \$3.6 million by FY 2025 (Table 1). FRC noted that the current foster child adoption credit exceeds the annual tax liability of many taxpayers claiming the credit. As a result, they accumulate growing carryforward balances. This would continue to be the case under the legislation, leaving many carryforward credits unused. FRC noted that the bill allows taxpayers to use the carryforward amounts against future taxes after their children turn 18, pushing a portion of the increased credits earned under the bill and their fiscal impact beyond the timeframe covered by the analysis. The attached appendix details the analysis.

**Table 1. Estimated Effects of LC 43 1018**

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State revenue loss	\$1.4	\$2.1	\$2.6	\$3.1	\$3.6
Increased carry-forward balance (trailing tax year-end)	\$8.2	\$16.1	\$23.6	\$30.6	\$37.1

**Impact on State Expenditures**

The Department of Revenue will not need additional funding to implement the bill.

Sincerely,



Greg S. Griffin  
State Auditor



Kelly Farr, Director  
Office of Planning and Budget

GSG/KF/mt

### **Analysis by the Fiscal Research Center**

The proposed bill would increase the credit earned through the existing foster child adoption credit to \$6,000 for the first five years after adoptions. The estimates rely on data from the Georgia Department of Revenue (DOR) on the usage of the foster care adoption credit from TY 2009 through 2017, and in particular on detail available for TY 2017 as to carryforward balance changes. The report “Trends in U.S. Adoptions: 2008-2018,” from the federal Department of Health and Human Services (HHS), provided data on foster adoption trends and the age distribution of adoptees.

The DOR data indicated a net increase of 408 in the number of credits earned (i.e. credit-eligible adoptees) in TY 2017 over the prior year, slightly faster growth than the 380 net increase in TY 2016. The HHS data indicated that 1,401 children were adopted out of foster care in Georgia during FY 2017. Though the data do not allow estimation of gross new credits earned, before attrition of aged-out adoptees and those who moved out of the state, the apparent discrepancy suggests that significant numbers of foster care adoptions occur in Georgia without the parents subsequently claiming the tax credit. If this apparent discrepancy is correct and these taxpayers respond to the increased credit amount by participating at greater rates, then the realized fiscal impact could be greater than that estimated in this analysis.

- The detailed DOR data for TY 2017 on the utilization of the adoption foster care credit indicate that 59.9 percent of the credits earned in the year were utilized in the same year and 6.9 percent of existing carry forwards are utilized. The current-law baseline assumes the same shares of current period and carried forward credits are utilized each year through TY 2024.
- Using HHS data on the age breakdowns of those being adopted out of foster care were used to estimate that approximately 54 percent of the credits earned in TY 2017 were those within the first five years after adoption. This share is estimated to decrease to 42.2 percent by TY 2024 as a result of the relative numbers of new adoptions and the numbers aging out.
- Using DOR data to simulate the credit increase, as if in effect in 2017, it is estimated that the share of the \$4,000 increase in credits earned that can be utilized in the same year to offset tax liability is 14.9 percent, with the remainder adding to the carryforward balance. The reason for this is simply that for most taxpayers currently claiming the credit, the existing credit amount already fully offsets their tax liability, thus the increased credit amount would simply increase their carryforward balances. As under the current law projections, 6.9 percent of the additional carryforward balance at the end of each year are assumed to be utilized in the following year.
- HHS data indicates that adoptions out of foster care in Georgia grew at .56 percent per year between FY 2009 and FY 2018. The estimates assume this growth rate in the number of new adoptions continues unchanged, resulting in growth of the pool of credit-generating adoptees averaging 6.4 percent annually from TY 2017 through TY 2024.

Table 2 presents projections of the numbers of credits-eligible adoptees, credits utilized, and accumulated carry forward amounts under current law and the proposed bill.

**Table 2. Tax Year Credits Utilized and Accumulated Carry Forward Balances**

<i>(\$ millions)</i>	<b>TY 2020</b>	<b>TY 2021</b>	<b>TY 2022</b>	<b>TY 2023</b>	<b>TY 2024</b>
Total eligible adoptees	5,021	5,339	5,619	5,852	6,025
First-five-year adoptees	2,404	2,503	2,517	2,531	2,545
<b>Current Law Baseline</b>					
Utilized credits	\$7.0	\$7.6	\$8.2	\$8.7	\$9.1
YE carry-forward bal.	\$17.6	\$20.7	\$23.8	\$26.8	\$29.8
<b>Proposed Law</b>					
Utilized credits	\$8.5	\$9.7	\$10.8	\$11.8	\$12.7
YE carry-forward bal.	\$25.8	\$36.8	\$47.4	\$57.4	\$66.9