

# OKLAHOMA TAX COMMISSION

## REVENUE IMPACT STATEMENT AND/OR ADMINISTRATIVE IMPACT STATEMENT SECOND REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** March 10, 2020

**BILL NUMBER:** HB 3086

**STATUS AND DATE OF BILL:** Engrossed Bill 3/9/2020

**AUTHORS:** House Hilbert, Russ, Burns, Boles and Humphrey Senate Bice

**TAX TYPE (S):** Income Tax **SUBJECT:** Credit and Deduction

**PROPOSAL:** New Law and Amendatory

Engrossed HB 3086 proposes to amend 68 O.S. §2358 to eliminate the existing \$20,000 annual income tax deduction for nonrecurring adoption expenses incurred by a resident individual taxpayer for the adoption or proposed adoption of a minor. A new income tax credit is created to offset 10% of these expenses, effective for tax years beginning on or after January 1, 2021. The credit is limited to either \$2,000 for a resident taxpayer with a filing status of single or married filing separate, or \$4,000 for a resident taxpayer with a filing status of married filing joint.

**EFFECTIVE DATE:** January 1, 2021

### REVENUE IMPACT:

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 21: None.

FY 22: Estimated decrease of \$1,281,000 in income tax collections.

Mar. 10, 2020  
DATE

Rick Miller  
DIVISION DIRECTOR

bdf

3/11/2020  
DATE

Huan Gong  
HUAN GONG, ECONOMIST

3/12/2020  
DATE

[Signature]  
FOR THE COMMISSION

*The revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.*

Engrossed HB 3086 proposes to amend 68 O.S. §2358 to eliminate the existing \$20,000 annual income tax deduction for nonrecurring adoption expenses incurred by a resident individual taxpayer for the adoption or proposed adoption<sup>1</sup> of a minor. A new income tax credit is created to offset 10% of these expenses, effective for tax years beginning on or after January 1, 2021. The credit is limited to either \$2,000 for a resident taxpayer with a filing status of single or married filing separate, or \$4,000 for a resident taxpayer with a filing status of married filing joint.<sup>2</sup>

Nonrecurring adoption expenses include (but are not limited to) adoption fees, court costs, medical expenses, attorney fees and expenses that are directly related to the legal process of adoption of a child, health and psychological examinations, transportation and reasonable costs of lodging and food for the child or adoptive parents that are incurred to complete the adoption process and are not reimbursed by other sources. Attorney fees for litigating a contested adoption and costs for physical remodeling, renovation and alteration of the adoptive parents' home or property, except for a special needs child, are excluded from allowable expenses. The Oklahoma Tax Commission is responsible for creating rules to implement the credit, including a list of specific nonrecurring adoption expenses that qualify for the credit.

Total adoption-specific expenses published by the Children's Bureau of the U.S. Department of Health & Human Services are reflected in Table 1.

Table 1 - Adoption-Specific Expenses	
Types of Adoption	Total Costs
Adoption from Foster Care	Minimal
Private Agency Adoption	\$20,000 - \$45,000
Independent Adoption	\$15,000 - \$40,000
Intercountry Adoption	\$20,000 - \$50,000

Source: <https://www.childwelfare.gov/pubs/s-cost/>

For this analysis, it is assumed that nonrecurring adoption expenses average \$22,500.00. Based on this average, it is estimated that \$1,416,000 of the proposed credits would be generated in tax year 2021. Further, an estimate of the cost of the existing deduction (based on tax year 2017 tax return data) was calculated.<sup>3</sup>

Assuming similar activity in tax year 2021, a potential net decrease<sup>4</sup> in income tax collections of approximately \$1,281,000 is expected as a result of this proposal. No changes in withholding or estimated tax payments are expected; the full impact would occur in FY 22 when the 2021 returns are filed.

<sup>1</sup> It is not required for a proposed adoption to result in a decreed adoption.

<sup>2</sup> It is assumed that a taxpayer filing as head of household could claim a maximum credit of \$4,000 for qualified adoption expenses.

<sup>3</sup> A deduction for qualified adoption expense was claimed on 632 income tax returns for a total deduction amount of approximately \$4,429,000. Applying an effective income tax rate of 3.05% to the total deduction results in an estimated decrease in income tax collections of approximately \$135,000 for tax year 2017.

<sup>4</sup> Increase of \$135,000 due to the elimination of the deduction for adoption expenses and a decrease of \$1,416,000 due to the adoption income tax credit, equals a net decrease of income tax collections of \$1,281,000.