



# MEMO

Tax Policy Division

**To:** Rick Miller, Director *RYM*  
**From:** Bettina Fryhover - Tax Policy Analyst  
**Cc:** Lisa Haws, Tax Policy Analyst  
**Date:** 02/18/2022  
**Re:** Revenue Impact – Proposed Committee Substitute for SB 1686

The Proposed Committee Substitute for SB 1686 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, beginning for tax year 2023. A new, refundable income tax credit is created for 25% of adoption-related costs to adoptive parents of a resident of this state or a child born to a resident of this state that results in the filing of a certificate of decree of adoption after January 1, 2023. Adoption-related costs include relevant court fees, fees paid to adoption service agencies, prenatal and natal medical expenses of the biological mother pursuant to an adoption agreement, and costs for home study. Effective for tax year 2023 and subsequent years, a credit of up to \$5,000 may be claimed for each certificate of decree of adoption. The Oklahoma Tax Commission (OTC) may promulgate rules or prescribe forms to verify costs and taxpayer qualification for the credit.

Total credits used to offset tax are limited to \$5 million per year, and the OTC will annually calculate and publish a percentage by which the credits will be reduced so the total annual amount of credits used to offset tax does not exceed \$5 million. The formula used for the percentage adjustment is \$5 million divided by the credits claimed in the second preceding tax year.<sup>2</sup>

For tax year 2019, 636 taxpayers claimed the existing annual income tax deduction for nonrecurring adoption expenses for a total deduction amount of approximately \$4.1 million. Applying an effective income tax rate of 3.05% to the total deduction results in a related decrease in income tax revenue of approximately \$144,000. It is unknown whether expenses claimed for tax year 2019 resulted in the filing of a certificate of decree of adoption for each deduction. Internet research indicates the total average costs to adopt a child in the U.S. is \$41,532.<sup>3</sup> Costs for court fees, fees paid to adoption service agencies, prenatal and natal medical expenses of the biological mother pursuant to an adoption agreement, and costs for home study total \$27,747. Based on this information, the potential revenue impact of the proposal is an estimated net decrease<sup>4</sup> in income tax revenue of approximately \$3 million for tax year 2023. The full impact would occur in FY 24 when the 2023 income tax returns are filed.

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

<sup>2</sup> Because the formula to be used for the percentage adjustment is \$5 million divided by the credits claimed in the second preceding tax year, the credit cap is not enforceable until tax year 2025.

<sup>3</sup> See <https://helpinggrowfamilies.com/oklahoma-adoption-requirements-complete-guide/>.

<sup>4</sup> The combined increase of \$144,000 for the elimination of the deduction for adoptions expenses and the estimated decrease of \$3.18 million for the proposed adoption income tax credit results in an estimated net decrease of \$3 million.

