

SUMMARY ANALYSIS OF AMENDED BILL

Author: Runner et al. Analyst: Colin Stevens Bill Number: AB 119

Related Bills: SB 1920 (1993/94) Telephone: 845-3036 Amended Date: 1/28/98

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Child Adoption Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO PENDING.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 6, 1997, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a credit equal to the qualified costs paid or incurred by the taxpayer for the adoption by the taxpayer of any qualified minor child in foster care, who is adopted by means of an agency adoption or an independent adoption during the taxable year. The credit amount may not exceed \$1,000 per eligible qualified minor child.

SUMMARY OF AMENDMENT

The January 28, 1998, amendment would limit the credit to children in foster care and would make the operative date of the bill January 1, 1999.

EFFECTIVE DATE

As a tax levy, this bill would take effect immediately upon enactment and would apply to taxable years beginning on or after January 1, 1999.

SPECIFIC FINDINGS

With the exception of the amendments, and new state law noted below, the specific findings of the department's analysis of the bill as amended March 12, 1997, still apply.

DEPARTMENTS THAT MAY BE AFFECTED:

STATE MANDATE

GOVERNOR'S APPOINTMENT

Board Position:

S O
 SA OUA
 N NP
 NA NAR
 X PENDING

Agency Secretary Position:

S O
 SA OUA
 N NP
 NA NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved _____
Position Disapproved _____
Position Noted _____

Department/Legislative Director Date
Johnnie Lou Rosas 2/19/98

Agency Secretary Date

By: Date:

Current state law, enacted in 1997 (SB 455, Ch. 611, Stats. 1997), conforms California law to federal law in allowing the exclusion of a maximum \$5,000 (\$6,000 for certain special needs adoptions) from the gross income of an employee for qualified adoption expenses paid by the employer.

Policy Considerations

The first policy concern, noted in the department's analysis of the bill as amended March 12, 1997, still applies. The second policy concern is newly noted in this analysis.

Most credits are enacted with a sunset date so the Legislature may review its effectiveness. This credit does not contain a sunset date.

If this bill is enacted, the state would have three adoption tax incentives available to taxpayers, which would increase complexity and may create confusion as to which incentive taxpayers may be able to claim. On the other hand, the effectiveness of the incentives to adopt children may be increased by the varied tax benefits available.

Implementation Consideration

This bill could be implemented during the department's annual updates.

In recent credits, the Legislature has limited the number of years unused credit may be carried forward. Most credits are exhausted in eight years.

FISCAL IMPACT

Tax Revenue Estimate

This bill is estimated to impact PIT revenue as shown in the following table.

Fiscal Year Cash Flow			
Taxable Years Beginning After December 31, 1998			
Enactment Assumed After June 30, 1998			
\$ Millions			
1998-9	1999-0	2000-01	2001-02
(minor*)	(\$1)	(\$1)	(\$1)

* Loss less than \$250,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact for this bill would be determined by the number of qualified adoptions made during any given taxable year, average qualifying costs, and the tax liabilities of claimants.

This estimate was developed in the following steps. First, the total number of adoptions by California residents was based on information received from Department of Social Services. During fiscal year 1994-5, approximately

6,088 children were adopted in California, of whom 3,093 were public agency adoptions. Second, the total number of adoptions was increased 5% per year to allow for growth and an incentive effect from both federal and state tax benefits. Third, the total number of adoptions was multiplied by \$1,000. Thus, the total credit available would be approximately \$4 million for fiscal year 1999-0 as projected (3,948 x \$1,000). Fourth, it was assumed that, on average, taxpayers would be able to use 90% of the credit amount per year. Fifth, the credit amount applied under current law for public agency adoptions was calculated to be \$3 million for fiscal year 1999-0. These steps resulted in a 1999-0 fiscal year estimate of an additional \$1 million tax loss.

The 90% assumed usage rate is based on the fact that those who adopt children generally have higher tax liabilities. It also was assumed that unapplied carryover credits would be exhausted in the subsequent year. Since taxpayers who qualify for the current law adoption credit of 50% of costs incurred, not to exceed \$2,500, would have the option of either claiming the proposed credit or the current state credit, it is assumed, based on actual state data, that taxpayers would claim this credit because current data shows an average credit amount of \$700, based on average cost of \$1,400. This credit would allow taxpayers an additional \$300 credit on average.

BOARD POSITION

Pending.