



# DEPARTMENT OF AUDITS AND ACCOUNTS

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February 8, 2021

Honorable Shaw Blackmon  
Chairman, House Ways and Means  
133 State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 114 (LC 33 8512-EC)

Dear Chairman Blackmon:

The bill would amend the existing tax credit for the adoption of a foster child by increasing the credit to \$6,000 for the first five years after adoption. The credit would then be \$2,000 annually until the year in which the adopted child reaches age 18. The total amount of the tax credit allowed per year cannot exceed the taxpayer's income tax liability and unused tax credit amounts cannot be carried forward to future years' liabilities. The bill would be effective for tax years beginning on or after January 1, 2021.

## Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by approximately \$400,000 in FY 2022, with the revenue reduction growing to \$1.5 million by FY 2026 (Table 1). However, the bill's provision that eliminates the carryforward for new credits would result in a lower carryforward than would exist under current law. The attached appendix provides details of the analysis.

**Table 1. Estimated Effects of LC 33 8512-EC**

<i>(\$ millions)</i>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
State revenue effect	(\$0.4)	(\$0.7)	(\$1.0)	(\$1.2)	(\$1.5)
Change in carryforward balances	(\$0.4)	(\$1.3)	(\$2.4)	(\$3.9)	(\$5.6)

## Impact on State Expenditures

The Department of Revenue (DOR) would implement the provisions of the bill with existing resources.

Sincerely,

/s/ Greg S. Griffin  
Greg S. Griffin  
State Auditor

/s/ Kelly Farr  
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. In addition, the bill repeals the ability of taxpayers earning the credit to carry forward credits that cannot be utilized against tax liability for the tax year the credit was earned, to be applied against tax liability in future years.

The estimates rely on data from the Georgia Department of Revenue (DOR) on the usage of the foster care adoption credit, in particular on administrative tax return data for tax years (TY) 2017 and 2018 as to credits earned, utilized, and carried forward. The report “Trends in U.S. Adoptions: 2008-2019”, 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 436 in the number of credits earned (i.e., credit-eligible adoptees) in TY 2018 over the prior year, an 11 percent net increase over TY 2017 total credit-earning adoptees. The HHS data indicated that 1,668 children were adopted out of foster care in Georgia during federal fiscal year (FY) 2019. Though the data do not allow estimation of gross new credits earned (i.e. for new adoptees) 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 may occur in Georgia without the parents subsequently claiming the tax credit. If this is so 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.

Note that the estimates assume that adoptions completed prior to the effectiveness of the bill (i.e., prior to TY 2021) would continue to earn credits under the law in effect at the time of the adoption, including the ability to carry forward unutilized credits as well as the \$2,000 per year amount of the credit.

- The detailed DOR data for TYs 2017 and 2018 on the utilization of the adoption foster care credit indicate that, on average, 62.4 percent of the credits earned in the year were utilized in the same year and 7.2 percent of carryforward balances from the prior year are also utilized. The current-law baseline assumes the same shares of current period and carried forward credits are utilized each year through TY 2025.
- Using estimated gross new credit-eligible adoptions (before attrition) through 2018, it is estimated that approximately 54 percent of the credits earned in TY 2018 were for adoptees within the first five years after adoption. This share is estimated to decrease over time as a result of the relative numbers of new adoptions, continuing credit earners, and those aging out. During the periods of the projections, the share earning the full \$6,000 credit is lower because adoptees can age out before the fifth year and because pre-effectiveness adoptees are assumed to earn credits at the current-law rate.
- Using the 2017-18 DOR data to simulate the credit increase, as if in effect at the time, 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 approximately 16.2% percent. 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 only increase the amount that cannot be utilized.

- HHS data indicate that adoptions out of foster care in Georgia grew at 1.79 percent per year between FY 2009 and FY 2019. The estimates assume this growth rate in the gross number of new adoptions (before attrition) each year, resulting in growth of the pool of credit-generating adoptees averaging 3.2 percent annually from TY 2021 through TY 2025.

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. Fiscal year effects in Table 1 assume further that credits impact collections generally in the fiscal year beginning July 1 of the given tax year.

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

<i>(\$ millions)</i>	<b>TY 2021</b>	<b>TY 2022</b>	<b>TY 2023</b>	<b>TY 2024</b>	<b>TY 2025</b>
Total eligible adoptees	5,420	5,687	5,900	6,051	6,147
\$6,000 credit-eligible adoptees	576	1,132	1,669	2,185	2,686
<b>Current Law Baseline</b>					
Utilized credits	\$7.9	\$8.5	\$8.9	\$9.3	\$9.7
YE carry-forward bal.	\$19.0	\$21.9	\$24.8	\$27.6	\$30.2
<b>Proposed Law</b>					
Utilized credits	\$8.3	\$9.2	\$9.9	\$10.6	\$11.1
YE carry-forward bal.	\$18.6	\$20.7	\$22.4	\$23.7	\$24.6