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FISCAL IMPACT STATEMENT

LS 6034 — **NOTE PREPARED:** Jul 20, 2022
BILL NUMBER: HB 1001 — **BILL AMENDED:**

SUBJECT: Various Family and Children Matters.

FIRST AUTHOR: Rep. Negele — **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** — **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: *Automatic Taxpayer Refund:* This bill provides for an additional automatic taxpayer refund (ATR) for the 2021 taxable year in the amount of $225 to taxpayers who are eligible for an ATR under current law. It also allows an Indiana resident who is not eligible for an additional automatic taxpayer refund because the individual was not required to file a tax return to file an affidavit with the Department of State Revenue (DOR) to claim an ATR in the same amount of $225. It requires the DOR to verify each affidavit submitted as to its accuracy.

Sales Tax Exemption: The bill provides a sales tax exemption for children's diapers.

Exemption for Dependent Children: The bill increases the exemption amount subtracted from an individual's adjusted gross income for a dependent child. It also allows an individual to claim an increased exemption amount for a dependent child in the first year in which the exemption amount may be claimed for the child.

Exemption for an Adopted Child: It adds an additional exemption for an adopted child.

Adoption Tax Credit: The bill increases the amount of the tax credit to which an individual who is eligible to claim the federal adoption credit is entitled.

Required Pregnancy Services: The bill adds: (1) donated breast milk; (2) noninvasive prenatal and routine carrier screening; and (3) costs of labor and delivery; to the list of supplies and services provided by Medicaid and the Healthy Indiana Plan.

Safety PIN Grants: The bill allows a local health department that receives a grant from the Safety PIN

(Protecting Indiana's Newborns) Grant Fund to use the money to provide financial assistance to individuals seeking contraceptives.

Appropriations: The bill appropriates money for various purposes related to children and families.

Effective Date: Upon passage; January 1, 2022 (retroactive).

Explanation of State Expenditures: *Automatic Taxpayer Refund:* The bill provides a $225 ATR in addition to the ATR provided under current law. The approximately 4.3 million taxpayers that qualify for an ATR under current law would receive the ATR provided by the bill. In addition, an estimated 300,000 to 800,000 individuals that did not file a tax return could potentially receive the ATR. If all of these individuals meet the bill's requirements and file an affidavit with the DOR, General Fund expenditures would increase by approximately $1,046.0 M to $1,154.4 M in FY 2023.

Appropriations: The bill appropriates $58.5 M to supplement appropriations in FY 2023 for various program support and expansion, as well as grants, as detailed in the following table.

Agency	Appropriation Purpose	FY 2023 (in Millions)
Department of Health (DOH)	Distribution to Real Alternatives	$2.0
DOH	Expansion of Nurse Family Partnership Program	10.0
DOH	Safety PIN Grant Fund	5.5
DOH	Grants to communities for newborn safety devices (individual grants not to exceed $10,000)	1.0
Family and Social Services Administration (FSSA)	Child Care and Development Fund voucher program	10.0
FSSA	Supplies and services under Medicaid and HIP mandated services	30.0
Total		**$58.5**

The bill's requirements may require additional workload to implement these supplemental programs. The workload is expected to be within these agencies' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels. Unencumbered appropriations may revert to the state General Fund at the end of FY 2023 depending on the fund type to which it is appropriated.

Required Pregnancy Services: The state share of the cost of donated breast milk for Medicaid-covered newborns who are placed in a neonatal intensive care (NICU) after birth is estimated at $200,600. The cost of other pregnancy services required under the bill is indeterminate and based on the specific circumstances of the pregnancies covered. Pregnancy services currently cover prenatal tests and screenings required in the standards established by the American College of Gynecology and the American Academy of Pediatrics, and additional testing when medically necessary. Preparing amendments and waivers is within the routine work of the FSSA.

Department of State Revenue (DOR): The DOR would incur additional expenses and workload to issue ATRs to taxpayers and qualified non-filers, create an affidavit, and verify the accuracy of each affidavit submitted. The DOR will also incur additional expenses to revise tax forms, instructions, and computer programs to reflect the tax changes made by the bill. The bill's requirements represent an additional workload and expenditure on the agency outside of the agency's routine administrative functions, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

<u>Additional Information</u> -

Automatic Taxpayer Refund: Under current law, taxpayers must have filed a tax return in the calendar year in which the state had excess reserves to qualify for an ATR. The bill provides that an individual who is not eligible for an ATR under current law may receive the additional ATR if the individual (1) was a resident of Indiana for more than 183 days in tax year 2020, (2) was not claimed as a dependent in tax year 2020, and (3) did not file a tax return for tax year 2020 because the individual was not required to do so under state law.

The estimated number of individuals eligible to receive ATRs under this bill is based on 2021 Census Bureau estimates of Indiana's population and the estimated number of taxpayers that will receive an ATR in CY 2022. For purposes of this analysis, it is assumed that all Indiana residents that did not file a tax return and are either 19 years and over or 24 years and over would receive an ATR. However, the actual number of eligible individuals could be smaller to the extent that these individuals did not reside in Indiana for more than 183 days. The actual number of eligible taxpayers may also be smaller than the estimate if the DOR is unable to verify information submitted by all individuals and provide the ATR to all individuals who did not file a tax return but who otherwise qualify under the bill.

Current law requires the Office of Management and Budget to calculate the amount of state reserves at the end of each odd-numbered fiscal year. State reserves that exceed 12.5% of the General Fund appropriation for the fiscal year are considered excess reserve. If the excess reserve is more than $50 M, then it is equally distributed to the Pension Stabilization Fund and for the purpose of ATRs. The DOR issues ATRs to Indiana residents that filed a tax return for the previous taxable year. P.L. 2-2022, which applies to ATRs issued in CY 2022 and going forward, expanded eligibility to include taxpayers that did not have tax liability. The excess reserve calculation at the end of FY 2021 resulted in ATRs of $125 per taxpayer, $545.4 M in total, beginning in May 2022.

Required Pregnancy Services: Estimates for donated breast milk expenditures are based on 3,430 Medicaid-covered newborns placed in a NICU in CY 2020 and the cost of donated breast milk estimated at $1,000 per infant for the NICU stay. The total state cost is just under $1.2 M, with the fee-for-service share of $200,600 and a HIP share of $979,300.

Medicaid is jointly funded between the state and federal governments. The standard state share of costs for most Medicaid medical services for FFY 2023 is 34.3%, or 10% for the age 19 to 64 expansion population within the Healthy Indiana Plan. The state share of administrative costs is 50%. Fee-for-service enrollees are about 17% of the Medicaid pregnancy population and are funded by the state General Fund, while the state share for HIP enrollees, 83% of Medicaid enrolled pregnancies, is covered within the incremental hospital assessment fee that funds HIP.

Explanation of State Revenues: *Summary* - The bill's tax provisions will reduce state General Fund revenue by an estimated $21.1 M to $22.2 M in FY 2023 and between $22.9 M to $24.0 M in FY 2024. The tax provisions apply in tax year 2022 and will impact revenues beginning in FY 2023. The summary estimate of the bill's tax provisions include the changes to income tax exemptions for dependent children, the new exemption for adopted children, the adoption tax credit, and the new sales tax exemption for children's diapers.

Estimated Revenue Impact (in Millions)		
Tax Provision	**FY 2023**	**FY 2024**
Exemption for Dependent Children	($9.7)	($9.5)
Exemption for an Adopted Child	(4.4 - 5.3)	(4.3 - 5.2)
Adoption Tax Credit	(0.8 - 1.0)	(0.8 - 1.0)
Sales Tax Exemption for Children's Diapers	(6.2)	(8.3)
Total	**($21.1 - $22.2)**	**($22.9 - $24.0)**

Exemption for Dependent Children: Increases to the exemption amount for a dependent child and doubling that exemption amount in the first tax year in which the taxpayer is able to claim that child will reduce General Fund revenue by approximately $9.7 M in FY 2023 and $9.5 M in FY 2024. The increase in the exemption amount for a dependent child from $1,500 to $1,600 will reduce state General Fund revenues by approximately $5.4 M in FY 2023 and $5.3 M in FY 2024. The estimate assumes that taxpayers receive an additional $100 exemption for 1,750,000 dependent children (the average number of child exemptions that were claimed annually in tax years 2017-2019).

The bill also allows a taxpayer to receive a $3,200 dependent child exemption in the first year in which the taxpayer is able to claim an exemption for that child rather than a $1,600 exemption. Increasing the exemption for newly claimed children could reduce General Fund revenues by $4.3 M in FY 2023 and $4.2 M in FY 2024. The estimate assumes that approximately 84,000 child exemptions are claimed for the first time annually at a cost of $1,600 per exemption. The estimated 84,000 child exemptions is based on the number of births in Indiana in 2019 (80,851) and the average annual number of adoptions from state court data from 2017-2021 (3,044).

Exemption for an Adopted Child: The bill provides a new $3,000 exemption for adopted children under the age of 19 or under the age of 24 if they are a full-time student. The adoption exemption could reduce General Fund revenue by between $4.4 M and $5.3 M in FY 2023 and between $4.3 M and $5.2 M in FY 2024. The estimate assumes that the population of adopted children eligible for the exemption ranges between 45,000 and 55,000. The lower estimate was calculated by taking the average total number of child exemptions claimed in state income tax returns from 2017-2019 multiplied by 2.6% (the estimated percentage of children who are adopted in Indiana from a U.S. Census Bureau report based on 2010 Census data). The higher estimate uses the annual average number of adoptions cases recorded in Indiana courts from 2017-2021 multiplied by 18 to estimate the entire population of eligible adopted children within the age range indicated by the bill.

For each adopted child under the age requirements, a taxpayer would be able to claim an exemption for an adopted child as well as an exemption for a dependent child. In the tax year in which the child was adopted, the taxpayer would receive exemptions totaling $6,200 for that child ($3,200 for an exemption for a newly claimed dependent child plus $3,000 for an exemption for an adopted child). In tax years after the adoption, the taxpayer would be eligible for exemptions of $4,600 for that child ($1,600 for the dependent child exemption plus $3,000 for the exemption for an adopted child).

Adoption Tax Credit: The increase to the adoption tax credit could reduce General Fund revenue by $0.8 M to $1.0 M in FY 2023 and FY 2024. The bill increases the state adoption tax credit to an amount equal to 20% of the federal adoption tax credit claimed in a taxable year up to a maximum state credit of $2,500 per eligible child. This estimate is based on tax returns for tax years 2017-2019.

During tax years 2017-2019, an average of 1,535 tax filers claimed approximately $725,000 in the state adoption tax credit annually. Under current law, Indiana's adoption tax credit is capped at 10% of the federal adoption tax credit up to a maximum amount of $1,000. The state tax credit is nonrefundable and cannot be carried forward or carried back. However, unused federal adoption tax credits can be carried forward for five years. The federal credit equals the amount of the qualified adoption expenses limited by a credit maximum ($14,400 for tax year 2021) and by the taxpayer's income.

Sales Tax Exemption: The exemption for children's diapers could reduce sales tax revenue by an estimated $6.2 M in FY 2023, depending on the effective date of the legislation. The annual revenue loss could be approximately $8.3 M beginning in FY 2024. Sales tax revenue is distributed to the General Fund (99.838%), Commuter Rail Service Fund (0.131%), and Industrial Rail Service Fund (0.031%). The estimated reduction in sales tax revenue is based on average expenditure data from the Consumer Expenditure Survey and Census Bureau estimates of the number of households in Indiana. It is assumed that the exemption will be effective beginning in September 2022.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Exemptions for Dependent and Adopted Children:* Increased exemptions for dependent children and adopted children will reduce local income tax revenue by an estimated $7.0 to $7.5 M in FY 2023 and FY 2024.

State Agencies Affected: Department of State Revenue; Department of Health; Family and Social Services Administration.

Local Agencies Affected:

Information Sources: OFMA Income Tax Database; Legislative Services Agency. *2018 Indiana Tax Incentive Evaluation*, p. 48-52.
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IRS. *Understanding the adoption tax credit.*
https://www.irs.gov/newsroom/understanding-the-adoption-tax-credit; Indiana Department of Revenue. Information Bulletin #117, Personal Exemptions and Special Rules, August 2020.
https://www.in.gov/dor/files/reference/ib117.pdf; Indiana Trial Court Statistics, Adoption court data from 2017-2021, https://publicaccess.courts.in.gov/ICOR/; STATS Indiana, Vital Statistics, Total Births, Indiana, 2019. https://www.stats.indiana.edu/vitals/;
Kreider, Rose, and Daphne Lofquist. *Adopted Children and Stepchildren: 2010 Population*

Characteristics, U.S. Census Bureau, April 2014;
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U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2020, Detailed means, variances, and percent reporting.
U.S. Bureau of Economic Analysis, Regional Price Parities by State, 2020.
U.S. Census Bureau, American Community Survey, 2020 ACS 5-Year Data, Indiana.
https://wonder.cdc.gov/controller/datarequest/D149;jsessionid=EEC053C8DF8D4A80CD3F7E1B34C8;
https://www.cdc.gov/nchs/pressroom/states/indiana/in.htm
U.S. Census Bureau, Annual Estimates of the Resident Population by Single Year of Age and Sex for Indiana, April 1, 2020 to July 1, 2021.

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