

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6027
BILL NUMBER: SB 2

NOTE PREPARED: Jul 28, 2022
BILL AMENDED: Jul 28, 2022

SUBJECT: Fiscal Matters.

FIRST AUTHOR: Sen. Holdman
FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill has the following provisions:

Hoosier Families First Fund: This bill establishes the Hoosier Families First Fund (Fund) to be administered by the State Budget Agency (SBA). It appropriates \$45 M from the state General Fund to the Fund for state FY 2023. It also authorizes the SBA to allot money from the Fund to the Department of Child Services, the Family and Social Services Administration, the Indiana Department of Health, and the Indiana Department of Homeland Security to provide additional funding for existing programs and new programs for certain specified purposes.

Budget Committee: This bill requires the Budget Committee to review the allotments from the Fund at the next regularly scheduled meeting of the Budget Committee following the release of the funds.

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

Medicaid Reimbursement Report: Before December 1, 2022, this bill requires the Office of Medicaid Policy and Planning (OMPP) to research and compile, Medicaid reimbursement rates, by Medicaid provider type, in states bordering Indiana for certain prenatal, pregnancy, postnatal, and pediatric wellness services. It also requires the OMPP to prepare a report of the OMPP's findings and submit the report to the General Assembly before December 31, 2022.

Effective Date: Upon passage; January 1, 2023.

Explanation of State Expenditures: *Hoosier Families First Fund:* The bill establishes the Hoosier Families First Fund, to be administered by the SBA and appropriates \$45M to the Fund from the state General Fund for FY 2023. Money in the Fund at the end of the fiscal year does not revert to the state General Fund. An increase in workload for the SBA will result from receiving service provider requests for funding and allotting the appropriated funds to various state agencies and service providers, as prescribed in the bill. The bill's requirements are expected to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels at the SBA and other agencies that may receive funding.

Budget Committee: The Budget Committee may require additional meeting time to review the allotments and release the funds.

Adoption Tax Credit: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes made by the bill. The DOR's current level of resources should be sufficient to implement these changes.

(Revised) *Medicaid Reimbursement Report:* Before December 31, 2022, the Office of Medicaid Policy and Planning must submit a report to the General Assembly regarding Medicaid reimbursement rates in a state bordering Indiana. This requirement is within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Adoption Tax Credit:* The increase to the adoption tax credit could reduce General Fund revenue between \$2.7 M and \$3.4 M per year. The bill increases the state adoption tax credit to an amount equal to the federal adoption tax credit claimed in a taxable year up to a maximum state credit of \$10,000 per eligible child. The credit increase is effective beginning in tax year 2023, so the revenue impact will likely begin in FY 2024.

Additional Information - 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 credit 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.

If the total amount of tax credit received increased by a factor of ten, just as the maximum credit amount increased by a factor of ten under the bill, the additional credit amount would be \$6.5 M. However, because the adoption tax credit is nonrefundable, taxpayers will not be able to receive a tax credit that exceeds their tax liability. The \$2.7 M to \$3.4 M estimate assumes that credit recipients receive up to ten times their current state adoption tax credit up to their remaining tax liability. This estimate is based on tax returns for tax years 2017-2019.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; State Budget Agency; Department of Child Services; Family and Social Services Administration; Department of Health; Department of Homeland

Security.

Local Agencies Affected:

Information Sources: OFMA Income Tax Database;

Legislative Services Agency. *2018 Indiana Tax Incentive Evaluation*, p. 48-52.

https://iga.in.gov/legislative/2022ss1/publications/tax_incentive_review/#document-19f338a0;

IRS. *Understanding the adoption tax credit*.

<https://www.irs.gov/newsroom/understanding-the-adoption-tax-credit>

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