

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

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FISCAL IMPACT STATEMENT

LS 6524
BILL NUMBER: SB 393

NOTE PREPARED: Dec 8, 2020
BILL AMENDED:

SUBJECT: Tax Refund Intercepts for Child Support Arrearages.

FIRST AUTHOR: Sen. Freeman
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: *Tax Refund Intercepts:* The bill provides that an obligation owed by an individual is not subject to a state tax income refund set off if: (1) the obligation arises from arrears on child support payments that initially accrued while the individual was the noncustodial parent of the child for whom the child support payments were owed; and (2) the individual is currently the custodial parent of that child.

Child Support Pass Through: The bill also provides that the first \$50 of child support, or the amount of the child support payment if it is less than \$50, collected on behalf of a child in a month for reimbursement of temporary services must be passed through to the child's family and disregarded in determining the amount of temporary assistance provided to the family.

Effective Date: July 1, 2021.

Explanation of State Expenditures: The number of households or individuals that are income eligible for and/or the amount of TANF cash benefits received may increase due to the disregard of up to \$50 of child support payments. The magnitude of the increase is indeterminate.

Additional Information - TANF is a federal block grant with a state maintenance of effort requirement. Basic or cash assistance is one component for the use of TANF funds. The state sets the criteria for eligibility and amount of cash benefit within federal guidelines. Indiana's net income eligibility varies based on the number of individuals in the household; in FY 2020 the eligibility is \$139.50 for a household size of one, \$697.50 for a household size of ten, and \$58.50 for each additional individual over ten members. Benefits are based on household need and a 10% payment discount. The average individual benefit paid in September 2020 was between \$78.46 and \$92.31 and the average case benefit was between \$208.14 and \$270.17.

Explanation of State Revenues: The exemption to income tax refund interception for child support arrears may reduce the amount of TANF reimbursement received, and could potentially reduce Indiana’s performance on measures that result in an incentive payment. Any potential for reduced reimbursements or payments is anticipated to be minimal.

Additional Information - The state intercept of income tax refunds may be paid to the custodial parent, or if the child has been supported through receipt of TANF benefits, the custodial parent assigns the intercept funds to the TANF program. DCS reports that about \$35 M to \$50 M of child support payment arrearage is collected through federal intercept of income tax refunds and about \$6.5 M is collected through state intercept. Additionally, DCS indicates that a small proportion of all child support cases have a change in custodial parent and that the county prosecutor is responsible to rearrange the court orders and determine arrearage balances when a custodial parent change is made.

To the extent that incentive payments from the federal government for the collection and handling of child support are based, in part, on reaching a targeted percentage of cases in arrears, exempting the intercept of certain income tax refunds could potentially affect the award amount. DCS also indicated that once an arrearage occurs, it is difficult to disallow the balance because it is based on a court ordered payment. Without the intercept of income tax refunds to reduce the number of cases with arrearages, the state could receive reduced federal incentive payments.

Between 2015 and 2019, the average annual number of arrearage cases in Indiana was 227,474, about 73.5% of cases. Indiana was estimated to receive incentive payments of about \$9.6 million annually between 2015 and 2019. The incentive funds are to be distributed as follows:

Child Support Bureau	22.2%
Counties (for child support enforcement)	22.2%
Title IV-D Prosecutors' Offices	33.4%
Clerks of Court	22.2%

Explanation of Local Expenditures: Title IV-D prosecutors could have increased court time or other workload increase to attempt to collect or dismiss child support arrearage in certain circumstances.

Explanation of Local Revenues: The county, prosecutors’ offices, and clerks of court could have reduced revenue from federal incentive payment pass through. (See *Explanation of State Revenues* for additional information.)

State Agencies Affected: Department of Child Services.

Local Agencies Affected: Counties, Title IV-D prosecutors’ offices; clerks of court.

Information Sources: Adam Norman, Sean Gorman, Will Young, Department of Child Services; <https://www.in.gov/dcs/4050.htm>; Office of Child Support Enforcement, *FY 2019 preliminary data tables* accessed at <https://www.acf.hhs.gov/css/resource/fy-2019-preliminary-data-report> on November 17, 2020; Jessica Tollestrup, *Child Support Enforcement: Program Basics*, Congressional Research Service, RS22380;

<https://www.in.gov/fssa/dfr/tanf-cash-assistance/about-tanf/>.

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