

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5061H.02I  
 Bill No.: HB 2547  
 Subject: Adoption; Family Law; Tax Credits  
 Type: Original  
 Date: March 4, 2024

Bill Summary: This proposal establishes the "Zero-Cost Adoption Fund Act" which establishes a fund to offset costs associated with adoption and a tax credit for any person who contributes to the fund.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	(\$8,923)	\$0 to Could Exceed (\$25,078,846)	\$0 to Could Exceed (\$25,567,116)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$8,923)</b>	<b>\$0 to Could Exceed (\$25,078,846)</b>	<b>\$0 to Could Exceed (\$25,567,116)</b>

\*Oversight reflects costs for \$25 million tax credit adjusted annually by CPI in Section §135.315, \$453.650 money transfers to the Zero-Cost Adoption Fund, and DOR (1) FTE. Oversight notes the proposal allows the annual cap (starts at \$25 million) to grow each year by the consumer price index for All Urban Consumers for the Midwest Region – until it reaches \$75 million. **Assuming a 2% annual growth, the cap would reach the \$75 million mark in approximately 2081.**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
"Zero-Cost Adoption Fund"*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Distributions and transfers net to zero.  
 Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 135.315 – Zero-Cost Adoption Fund Donation Tax Credit

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this section would grant taxpayers a tax credit for donations made to the newly created (Section 453.650) “Zero Cost Adoption Fund”. B&P notes that while the tax credit will begin tax year 2025, it will not be taken until taxpayers file their annual income tax returns in FY26.

The tax credit is non-refundable, cannot be sold, transferred, or otherwise conveyed, and cannot exceed 50% of a taxpayer’s tax liability in a given tax year. The tax credit may be carried forward for up to four years.

For tax year 2025, the cumulative amount of tax credits that may be authorized is \$25 million. Beginning in 2026, the tax credit shall be annually adjusted by inflation (CPI-U Midwest). B&P notes that this proposal says “adjusted” and not “increased”; therefore, if the inflation rate decreases (deflation), the cap on this program will also decrease. The cap shall no longer be adjusted for inflation once it has reached \$75 million per year.

Assuming a 2% annual inflation, B&P estimates the following authorization limits:

Table 1: Estimated Cap by Year

Tax Year	Fiscal Year	Est. Cap
TY 2025	FY 2026	\$25,000,000
TY 2026	FY 2027	\$25,500,000
TY 2027	FY 2028	\$26,010,000
TY 2028	FY 2029	\$26,530,200
TY 20xx	FY 20xx	\$75,000,000

*\*Assumes 2% annual inflation.*

Therefore, B&P estimates that this proposal could reduce TSR and GR by up to \$25 million in FY25. By FY29, this proposal could reduce TSR and GR by \$26.5 million. Once fully implemented, this proposal could reduce TSR and GR by \$75 million annually.

Officials from the **Department of Revenue (DOR)** assume starting January 1, 2025, this proposal creates a new tax credit program and a new state fund. This proposal will allow a qualified taxpayer to claim a tax credit equal to 100% of a contribution made to the fund. This proposal does not clearly identify which fund these contributions are to be made to in order to get the credit.

The tax credit is to be certified by the State Treasurer and is not to exceed 50% of a taxpayer's state liability in the year the credit is claimed. The credit is not transferrable, sellable or refundable. The credit can be carried forward four years. DOR assumes that the State Treasurer is to certify the contribution amount made and the issuance of a tax credit certificate.

This proposal says that the cumulative amount of credits shall not exceed \$25 million in the first year. The cap shall be annually adjusted by the CPI until reaching \$75 million, where the cap will remain. Additionally, this proposal states that the credits are to be issued on a first-come, first-serve basis according to rules established by the Department. However, this proposal does not identify which Department is to handle the credits. DOR assumes that since the State Treasurer is to certify the credits, they will keep track of the cap and not distribute more credits than allowed under the cap.

DOR notes that this become effective on January 1, 2025, and the first time the credit can be claimed on the tax return would be January 2026 (FY 2026). DOR uses a 2% inflation rate when calculating the fiscal notes. This will result in the following impact.

Fiscal Year	Loss to General Revenue
2025	\$0
2026	(\$25,000,000)
2027	(\$25,500,000)
2028	(\$26,010,000)

\*increasing to \$75 million in future years

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC (\$7,138), updates to the DOR website and changes to the individual income tax computer system (\$1,785). These changes are estimated to cost \$8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$35,880.

Oversight notes that officials from the **DOR** and **B&P** both assume costs to the program will be exceeding \$25,000,000 due to the CPI annually adjustment until it reach \$75 million. Therefore, **Oversight** will note the costs as estimated by the DOR and BYP beginning FY 2026.

Additionally, officials from the **DOR** assuming the need for (1) FTE at \$35,880 annually and one time update to the form, website, and database at \$8,923. Therefore, **Oversight** will reflect updates to the form, website, and database in FY 2025, and the (1) FTE costs effective FY 2026.

Officials from the **Office of the State Treasurer (STO)** state the amount of the tax credit claimed shall not exceed fifty percent of the qualified taxpayer's state tax liability for the tax year for which the credit is claimed. The state treasurer shall certify the tax credit amount to the qualified taxpayer. A qualified taxpayer may carry the credit forward to any of such taxpayer's four subsequent tax years. All tax credits authorized under this section shall not be transferred, sold, assigned, or otherwise conveyed, and are not refundable.

The state treasurer shall provide a standardized format for a receipt to be issued to a qualified taxpayer to indicate the value of a qualifying contribution received. The department of revenue shall require a qualified taxpayer to provide a copy of this receipt if claiming the tax credit authorized by this section.

The state treasurer and the department of revenue shall promulgate all necessary rules and regulations for the administration of this section including, but not limited to, rules relating to the verification of a taxpayer's qualifying contribution.

In addition, STO states they do not have access to tax credit information. If the wording does not get changed, then there would be financial impact, as it would require additional processes be put in place. The financial impact is unknown. The STO may require an FTE.

Oversight assumes the proposal, as written, would require the STO to implement additional processes (and perhaps additional costs) and may require additional FTE based on the above response. Oversight has no way to determine what type or how many FTE would be needed, or what processes the STO would implement, in order to meet the requirements of the proposal. Therefore, **Oversight** will reflect a zero to Unknown costs in the fiscal note.

**Oversight** assumes this proposal creates the Zero-Cost Adoption Fund. For simplicity, Oversight assumes all funds will be utilized in the year in which they were received.

#### Section 453.650 – Zero-Cost Adoption Fund

Officials from the **Office of Administration (OA)** assume this section would create a new fund within the state treasury. The fund shall be administered by DSS. Monies in the fund shall come from appropriations and/or donations. Upon appropriation monies in the fund shall be used for various foster care and adoption programs.

This section will not impact TSR.

Officials from the **Department of Revenue (DOR)** assume this proposal creates a new state fund called the Zero-Cost Adoption Fund that is to receive money appropriated by the general assembly and any gifts, bequests and donations. This proposal delineates the uses for the money in this fund. This proposal allows DSS to create rules on the uses of the funding. DOR assumes no impact from the creation of the fund.

Oversight will reflect a donations reaching a zero (no donation was could exceed the \$25 million tax credit to the

Oversight notes the **Department of Social Services (DSS)** assume the proposal will have no fiscal impact on their organization.

**Oversight** notes the proposal, §453.650. 5 denotes the department of social services may promulgate all necessary rules and regulations for the administration of this section.

**Oversight** notes the DSS, via additional conversations through e-mail, state it can absorb the impact with existing staff.

**Oversight** assumes DSS is provided with core funding to handle a certain amount of activity each year. Oversight assumes DSS could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DSS could request funding through the appropriation process.

Officials state the Oversight Division is responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, **Oversight** assumes it can absorb the cost with the current budget authority.

#### Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE</b>			
<u>Costs – §135.315 - "Zero-Cost Adoption Fund Act"</u>			
Personnel Service	\$0	(\$36,598)	(\$37,330)
Fringe Benefits	\$0	(\$28,937)	(\$29,204)
Expense & Equipment	\$0	(\$13,311)	(\$582)
<u>Total Costs – DOR p.4</u>	\$0	(\$78,846)	(\$67,116)
FTE Change	0 FTE	1 FTE	1 FTE
<u>Costs – Section §135.315 – DOR updates to form, website, and database p.4</u>	(\$8,923)	\$0	\$0
<u>Loss - §135.315.5 (1) - "Zero-Cost Adoption Fund Act" tax credits p.4</u>	\$0	\$0 to (\$25,000,000)	\$0 to (\$25,500,000)
<u>Transfer - Out – 453.650.1 Any appropriations from General Revenue to the "Zero-Cost Adoption Fund"</u>	\$0	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs - §135.315. 4 to 7 – STO – Implementation of various provisions of the - "Zero-Cost Adoption Fund Act" p.5</u>	\$0	\$0 to (Unknown)	\$0 to (Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$8,923)</u></b>	<b><u>\$0 to Could Exceed (\$25,078,846)</u></b>	<b><u>\$0 to Could Exceed (\$25,567,116)</u></b>
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>ZERO COST ADOPTION FUND</b>			
<u>Transfer-In</u> – §453.650.1 - "Zero-Cost Adoption Fund" – General Assembly p.5	\$0	\$0 to Unknown	\$0 to Unknown
<u>Revenue Gain</u> - §453.650.1 - "Zero-Cost Adoption Fund" – gifts, grants, donation, & bequests p.5	\$0	\$0 to 25,000,000	\$0 to 25,500,000
<u>Costs</u> - §453.650.4 – various adoption related services	\$0	\$0 to Could Exceed (25,000,000)	\$0 to Could Exceed (25,500,000)
<b>ESTIMATED NET EFFECT ON ZERO COST ADAPTION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

\* Oversight assumes all funds will be utilized in the year in which they were received.

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes a fund and an accompanying tax credit known as the "Zero-Cost Adoption Fund Act".

There is created in the state treasury the "Zero-Cost Adoption Fund", which will be administered by the Department of Social Services and of which moneys shall be used to:

- (1) Support community-based intervention methods to prevent children from entering into foster care;



- (2) Promote adoption and recruit potential adoptive families;
- (3) Award grants to implement adoption-sensitive care services in health care settings; and
- (4) Provide post-adoption assistance, including the reimbursement of adoption costs paid in advance, counseling services, and other care that may be required.

For all years beginning on or after January 1, 2025, a qualified taxpayer, as defined in the bill, shall be allowed to claim a tax credit against his or her state tax liability in an amount equal to 100% of his or her qualifying contribution to the Zero-Cost Adoption Fund established under the provisions of this bill.

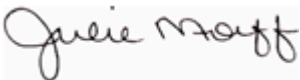
The cumulative amount of tax credits that can be allocated to qualified taxpayers in the first year of this program cannot exceed \$25 million, and such amount will be annually adjusted by the Department of Revenue for inflation; such annual increase will stop when the cumulative amount of tax credits that can be allocated reaches \$75 million.

This Act sunsets on December 31st six years after the effective date.

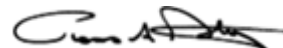
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Revenue  
Office of Administration – Budget & Planning  
Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of the State Treasurer  
Oversight Division  
Department of Social Services



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