

INDIVIDUAL INCOME TAX

Adoption Subtraction

March 14, 2001

Department of Revenue
 Analysis of H.F. 1199 (Tingelstad)/S.F. 1143(Berglin)

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings	X	

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$120)	(\$50)	(\$20)	(\$10)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

Current Law: Currently Minnesota conforms to IRC Section 137, which allows an exclusion from income of employer-provided adoption assistance amounts. That provision terminates December 31, 2001.

The federal credit for adoption expenses (IRC Section 23) is set at a maximum of \$5,000 of qualifying expenses or \$6,000 for a child with special needs. After 2001, the credit is available only for special needs adoptions. The federal credit is not refundable but unused credit may be carried forward for five years. Both the credit and the exclusion are phased out for incomes between \$75,000 and \$115,000.

Proposed Law: The proposal would allow a subtraction for adoption expenses equal to the amount of the federal credit for the current year. Carryover amounts from the federal credit for prior years are allowable.

REVENUE ANALYSIS DETAIL

- The Joint Committee on Taxation estimates the federal tax expenditure for both the exclusion and the credit combined.
- Following the method used in the Minnesota Tax Expenditure Report, it will be assumed that 80% of the federal estimate applies to the credit in its last year, 2001.
- The federal credit is apportioned to Minnesota at 1.92% of the total.
- A marginal rate of 6.2% is applied.

NUMBER OF TAXPAYERS AFFECTED: Cannot be determined from data source used for analysis.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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