

**INDIVIDUAL INCOME TAX**  
Adoption Credit

March 15, 2001

Department of Revenue  
Analysis of S.F. 1097 (Berglin)/H.F. 1200(Tingelstad)

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

	<b>Revenue Gain or (Loss)</b>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$1,300)	(\$3,700)	(\$4,300)	(\$4,500)

Effective beginning with tax year 2001.

**EXPLANATION OF THE BILL**

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

The current federal adoption credit (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. Both the credit and the exclusion are phased out for incomes between \$75,000 and \$115,000.

**Proposed Law:** The proposal would provide a nonrefundable Minnesota income tax credit for adoption expenses not allowed federally and not reimbursed by any government or employer program. The maximum credit amount is \$5,000 for the adoption of one child, \$8,000 in the case of the adoption of a special needs child. Unused credit amounts may be carried forward to following years. Adoption expenses which qualify for the credit are: fees paid to adoption agencies or governmental agencies; travel-related expenses for family and child; and medical expenses of child and birth mother not covered by insurance.

**REVENUE ANALYSIS DETAIL**

- The number of returns using this credit is estimated to be about 1,580, based on information provided by the Department of Human Services. All but 600 are assumed to be either private agency adoptions or foreign adoptions, both types involving high fees and/or travel.
- The average credit taken is estimated at \$4,000 for the private and foreign adoptions and \$300 for others.

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- In 2001, while the federal credit is still available generally, the cost is estimated to be 30% of the total. This is the proportion assumed to be in incomes over the federal threshold.
- A small adjustment is made for the difference between the Minnesota and federal maximum credit for the adoption of special needs children.
- A carryforward of ten percent of the total is assumed.
- Annual growth of five percent is applied.

**NUMBER OF TAXPAYERS AFFECTED:** 1,600 returns.

**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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