OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 206

133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 206's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Stoltzfus and Boyd

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2020	FY 2021	Future Years
State General Revenue Fund			
Revenues	$7.2 million to $8.9 million loss	$7.6 million to $9.2 million loss	Increasing losses
Expenditures	$0	$0	$0
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	$0.3 million loss	$0.3 million loss	Increasing losses
Expenditures	Decrease commensurate with revenue loss	Decrease commensurate with revenue loss	Decrease commensurate with revenue loss

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- The bill would change the state personal income tax credit for adoption expenses from nonrefundable to refundable, and increase the minimum credit from $1,500 to $5,000.
- Resulting tax revenue losses are uncertain, with estimated losses between $7.5 million and $9.2 million in FY 2020, and between $7.8 million and $9.6 million in FY 2021.

Detailed Analysis

The bill would make three changes to Ohio's adoption credit against personal income tax liabilities: (1) the credit, now nonrefundable, would be made refundable, (2) the minimum amount of the credit, now at least $1,500 per adoption, would be increased to at least $5,000, and (3) the five-year carryforward allowed for unused credits would be eliminated. (A carryforward would serve no purpose for a refundable credit.) The $10,000 maximum credit per adoption is unchanged in the bill.

The direct cost of the bill is estimated in a range from $7.5 million to $9.2 million in FY 2020, and from $7.9 million to $9.6 million in FY 2021. Calculation of these amounts is summarized below.

Direct effects of the bill

In tax year (TY) 2017 (latest available), taxpayers claimed $6.3 million in Ohio adoption credits, according to Department of Taxation data. The credit is first claimed for the year in which the adoption is final and recognizable under Ohio law, with unused amounts carried forward up to five years.

The Department's Tax Expenditure Report (TER) published in March 2019 shows adoption credits reducing GRF revenue in FY 2018 by $3.9 million. Adoption credits were expected under current law to reduce GRF revenue by $4.4 million in FY 2019, $5.0 million in FY 2020, and $5.6 million in FY 2021. Based on these figures, the amount of adoption credits claimed that could not be used in TY 2017 but were instead carried forward for use in future years would have been approximately $2.3 million, calculated with the TER estimates adjusted to an all-funds basis. Making the credit refundable would have resulted in roughly a $2.3 million revenue loss in FY 2018, for TY 2017. The estimated annual revenue loss associated with making the credit refundable is here estimated to grow in line with the projected increase in the revenue loss under current law shown by the TER estimates. On the assumption that the bill would go into effect for TY 2019, adoption credits claimed grow to $8.1 million in FY 2020 and $9.1 million in FY 2021, and the associated revenue loss compared to current law grows to $2.9 million in FY 2020 and $3.3 million in FY 2021.

The effect of increasing the minimum credit from $1,500 to $5,000 can be estimated from data on the numbers of credits claimed and the total value of those credits, amounts published for TY 2017 by income range. The average value of credits claimed rises with income. Even though the minimum credit per adoption was $1,500, average credits in income ranges from $25,000 to $40,000 and from $45,000 to $50,000 were less than $1,500 for TY 2017. This apparent shortfall may have resulted from credits that were first claimed in earlier years, with residual amounts carried forward to TY 2017. If the average value is increased to $5,000 in lower income ranges in which it was below $5,000 in TY 2017, the increment to the credit's cost is about $4.6 million.

This estimate of the increment from increasing the minimum credit is understated, as credit claims of some individual taxpayers in these lower income ranges plausibly exceeded

$5,000. The increment might be up to about $6.3 million, based on an alternative calculation.[1] The cost of increasing the minimum amount of the credit from $1,500 to $5,000 in TY 2017 plausibly would have fallen somewhere in the calculated range between $4.6 million and $6.3 million.

Thus, the fiscal effect of the bill is an estimated revenue loss from making the adoption credit refundable of $2.9 million in FY 2020 and $3.3 million in FY 2021, plus an additional revenue loss from increasing the minimum credit in a range from $4.6 million to $6.3 million. These tax revenue losses would reduce distributions to each of the Local Government Fund (Fund 7069) and the Public Library Fund (Fund 7065) by 1.66% under codified law. The GRF would lose funding equal to 96.68% of the total revenue loss.

Possible indirect effects

In the estimates above, taxpayer behavior is assumed unchanged by the bill. If the bill results in more adoptions of minor children, by providing a higher financial incentive, that would tend to result in increased deduction claims. These indirect effects would increase the revenue loss, should they occur, but LBO does not know of a reliable basis for projecting the increased number of adoptions.

A potential offset to some or potentially all of these indirect as well as the direct revenue losses could result from savings to the state and benefits to society from having more children in family situations and fewer in the foster care system. These benefits cannot readily be assigned dollar values. They may accrue from reduced costs for special education and criminal justice, as well as additional lifetime income to adoptees over their subsequent working lives.[2]

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[1] The alternative calculation involves choosing a hypothetical mix of taxpayers claiming adoption credits equal to the minimum and maximum, $1,500 and $10,000, that would have resulted in the average credit amount claimed in each income range. For ranges in which the average is below $1,500, all taxpayers are assumed to claim credits of $1,500. The resulting calculated increment, summed across all income ranges, clearly is overstated to an unknown extent.

[2] See, for example, Mary Eschelbach Hansen, "The Value of Adoption," *Adoption Quarterly*, vol. 10, no. 2, 2007.