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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/17
 LAST UPDATED 1/30/17 HB 222

SPONSOR Baldonado

SHORT TITLE Special Needs Adopted Child Tax Credit Amount SB _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
\$0	(\$1,040.0)	(\$1,080.0)	(\$1,120.0)	(\$1,160.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases. ** R = recurring; NR = non-recurring

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD) in the 2015 Tax Expenditure Report Children, Youth and Families (CYFD)

SUMMARY

Synopsis of Bill

House Bill 222 increases the Special Needs Adopted Child Tax Credit from \$1,000 per child to \$1,500. The bill also requires that the department prepare an annual report to the legislature concerning costs and benefits of the credit.

The provisions of the bill are applicable to tax years beginning January 1, 2017. There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends. (June 16, 2017). There is no delayed repeal date. For reasons stated in “PERFORMANCE IMPLICATIONS”, the LFC recommends a delayed repeal on the increased credit percentage. This delayed repeal should be of duration sufficient to judge whether the increase in credit is effective in increasing the number of special needs children adopted.

FISCAL IMPLICATIONS

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

The 2015 TRD Tax Expenditure Report shows the following:

Special Needs Adopted Child Tax Credit					
	FY2010	FY2011	FY2012	FY2013	FY2014
Expenditures	\$1,393.0	\$1,578.5	\$1,660.0	\$1,681.0	\$1,737.0
Claims	802	895	927	927	958
Avg. Expenditure per claim	\$1,737	\$1,764	\$1,791	\$1,813	\$1,813

A simple linear trend generates the estimate shown in the table on page 1. However, see discussion of “Significant Issues” below.

SIGNIFICANT ISSUES

The current statute allows \$1,000 tax credit per child. The average expenditure per claim is about 1.8 times this allowed tax credit per child. This implies that 80% of claimants have two special needs kids in the family.

However, CYFD has provided the following data:

The foster care and adoptions bureau oversees the adoption subsidy program which includes IV-E and state funded children. Once an adoption is finalized, the bureau issues a special needs certificate to the family for each child for purposes of tax credit. The adoptive family in turn provides it to their tax preparer.

The numbers of finalized adoptions have remained flat between 250-300.

SPECIAL NEEDS CHILDREN AS OF January 2017

TOTAL ELIGIBLE SPECIAL NEEDS CHILDREN IN AND OUT OF STATE (ICAMA INCLUDED)	4,600
TOTAL NEW MEXICO SUBSIDIZED CHILDREN	4,008
TOTAL ICAMA (IV-E) IN NEW MEXICO FROM OTHER STATES	592
TOTAL NM RESIDENTS RECEIVING SUBSIDY ELIGIBLE FOR THE NM TAX CREDIT (TAX AND REV ELIGIBLE FOR SPECIAL NEEDS)	3,258

CYFD also indicates that 60% of families that adopt one special needs child either simultaneously or eventually adopt two special needs children.

Although 3,258 NM residents have received certificates, only 1,800 tax credits per year are currently being claimed. CYFD is working with the post-adoption provider to educate tax practitioners and adoptive families of the tax credit.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill’s requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose. However, there is no baseline. That is, how many special needs kids would be adopted in the absence of this credit? If the bill passes and the provisions implemented, it will give CYFD and

TRD an opportunity to determine if the number of kids adopted increased and to calculate a tax price elasticity. It may well be that there will be no increase. LFC recommends placing a five-year sunset on the increased amount. This will allow CYFD and TRD to calculate the effectiveness of a tax credit to incent special needs adoptions.

ADMINISTRATIVE IMPLICATIONS

Administrative consequences for both TRD and CYFD are minimal.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding such a date.

OTHER SUBSTANTIVE ISSUES

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✘	
Targeted		
Clearly stated purpose	✔	
Long-term goals	✘	
Measurable targets	✘	
Transparent	✔	
Accountable		
Public analysis	✔	
Expiration date	✘	
Effective		
Fulfills stated purpose	?	No purpose or measurable goals have been established.
Passes “but for” test	?	
Efficient	?	
Key: ✔ Met ✘ Not Met ? Unclear		

LG/al/jle