

# Fiscal Note

**BILL #** HB 2155

**TITLE:** income tax; subtraction; adoption expenses

**SPONSOR:** Keshel

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

Beginning in Tax Year (TY) 2026, HB 2155 would increase the amount of the individual income tax (IIT) subtraction for unreimbursed adoption expenses from \$3,000 for all filers to \$5,000 for single filers and \$10,000 for those married filing jointly.

## Estimated Impact

We estimate that the bill would have an annual General Fund cost of \$(40,000), beginning in FY 2027.

## Analysis

The National Council for Adoption (NCFCA) released a report in 2022 that estimated the number of children adopted in 2019 and 2020 on a state-by-state basis. The NCFCA reported these estimates for 3 separate categories of adoption: (1) domestic public ("foster care") adoptions, (2) domestic private adoptions, and (3) intercountry ("international") adoptions.

According to the NCFCA report, the total number of adoptions in Arizona was estimated to be 3,458 in 2019 and 2,930 in 2020. The (15.3)% reduction in 2020 was believed to be attributable to the impact of the COVID pandemic and for this reason, we based our fiscal impact estimate of this bill on the pre-pandemic adoption levels reported for 2019. In that year, 3,216 children in Arizona were adopted through the state's public child welfare system; 217 children through domestic private adoptions; and 25 children through international adoptions.

According to "Creating a Family," a nonprofit national adoption and foster care education organization, the cost of adopting a child depends mostly on the type of adoption used. For domestic public ("foster care") adoptions, the cost typically ranges from \$0 to \$2,500. Domestic private adoption expenses range from \$25,000 to \$60,000 depending on a variety of factors, including whether it is done through an adoption agency or attorney. The cost of international adoptions tends to vary between \$25,000 and \$40,000.

Laws 2023, Chapter 147 (Taxation Budget Reconciliation Bill), as session law, increased the individual income tax subtraction for certain types of adoption expenses, including unreimbursed medical costs, from \$3,000 to \$40,000 from TY 2023 through TY 2025. Beginning in TY 2026, the subtraction reverts to the amount allowed under permanent law, which is \$3,000. HB 2155 would increase the amount of the subtraction from \$3,000 for all filers to \$5,000 for single filers and \$10,000 for married couples filing jointly, beginning in TY 2026.

Parents of children adopted through the state's foster care program typically incur adoption expenses that are less than \$3,000. For this reason, we do not expect that there would be any additional General Fund cost associated with this type of adoption. For the other 2 types of adoption, domestic private and international adoptions, we estimate the General Fund would incur an additional cost of \$(40,000) relative to current law, beginning in FY 2027.



To derive our estimate, we first multiplied the number of domestic private (217) and international adoptions (25) by the expected cost per adoption (assumed to be \$42,500 for domestic private, the midpoint between \$25,000 and \$60,000, and \$32,500 for international, the midpoint between \$25,000 and \$40,000), which yielded a total cost of \$10,035,000. Under current law, these adoptions would have qualified for a total deduction of \$726,000 [= (217 + 25) x \$3,000].

The bill provides a \$5,000 subtraction for single filers and a \$10,000 subtraction for married filers. According to the NCFA, about 6.8% (15 filers) of those who adopted through private domestic adoption are single and 93.2% (202 filers) are married. Of those adopting internationally, 12.8% (3 filers) are unmarried and 87.2% (22 filers) are married. Based on these figures, we estimate taxpayers would be able to deduct a total of \$2,330,000 in adoption expenses under HB 2155 [(18 single filers x \$5,000) + (224 married filers x \$10,000)] compared to \$726,000 under current law. At the current tax rate of 2.5%, the additional \$1,604,000 in deductions allowed under the bill would translate into a General Fund cost of \$(40,000).

#### **Local Government Impact**

Incorporated cities and towns receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing (URS) Fund established by A.R.S. § 43-206. Therefore, under the bill, URS distributions to cities and towns would decrease by \$(7,000) annually beginning in FY 2029.

1/31/25