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House Bill 4852 (Substitute S-1 as reported)
Sponsor: Representative Gary Woronchak
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Income Tax Act to allow an "eligible taxpayer" to claim a refundable credit against the tax equal to an amount determined under Section 268 of the Act. The bill is tie-barred to House Bill 4812. (House Bill 4812 (H-2) would add Section 268 to allow an eligible taxpayer to claim a credit equal to the lesser of the taxpayer's "qualified adoption expenses", or \$1,200 per child.)

House Bill 4852 (S-1) provides that an "eligible taxpayer" would be a taxpayer who claimed "qualified adoption expenses" under Section 23 of the Internal Revenue Code (IRC), which allows a taxpayer to claim a credit against the Federal income tax of up to an aggregate of \$5,000 (\$6,000 for a special needs child) for qualified adoption expenses for all tax years.

(The Code defines "qualified adoption expenses" as the reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to the legal adoption of an individual who is under 18 years old or is incapable of caring for himself or herself; that are not incurred in violation of state or Federal law or in carrying out any surrogate parenting arrangement; that are not expenses in connection with an individual's adoption of a child who is the child of the individual's spouse; and that are not reimbursed under an employer program or otherwise.)

The bill would apply to tax years that began after December 31, 2000.

Proposed MCL 206.267

Legislative Analyst: G. Towne

FISCAL IMPACT

House Bills 4812 (H-2) and 4852 (S-1) would reduce income tax revenue by an estimated \$2.0 million in FY 2000-01, assuming that the bills were in effect for the 2000 tax year. This reduction in income tax revenue would have an impact on the General Fund/General Purpose budget. The proposed adoption expense credit, as structured in these bills, would potentially allow taxpayers to claim total Federal and State credits that would exceed their total adoption expenses. For example, if a taxpayer incurred adoption expenses of \$5,500, and were eligible for the maximum Federal credit of \$5,000, under these bills he or she also would be eligible for a State credit of \$1,200. As a result, the taxpayer's total Federal and State adoption tax credits would equal \$6,200, which would exceed the total expenses by \$700. This situation would occur whenever a taxpayer's adoption expenses were less than the sum of the maximum Federal and State credits.

Date Completed: 12-6-00

Fiscal Analyst: J. Wortley