

# DEPARTMENT OF TAXATION

## 2007 Fiscal Impact Statement

1. **Patron** Jay O'Brien

2. **Bill Number** SJ 377

3. **Committee** Senate Rules

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Study of Adoption Incentives in Other States

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This resolution would request that TAX examine the financial incentives offered by other states in order to support adoption. These incentives would include tax credits, deductions, exemptions, and subsidy programs, including potential credits to pay for the college tuition of adopted children. The Department of Taxation would be required to complete its meetings by November 30, 2007, and to issue a report no later than the first day of the 2008 Regular Session of the General Assembly.

Technical assistance would be provided to TAX by the Department of Social Services ("DSS"). All agencies of the Commonwealth would be required to provide assistance to TAX for this study, upon request.

The effective date of this resolution is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

There would be no administrative costs or revenue impact associated with this resolution.

9. **Specific agency or political subdivisions affected:**

Department of Taxation  
Department of Social Services

10. **Technical amendment necessary:** No.

## 11. Other comments:

### Background

Multiple studies in Virginia, including those conducted pursuant to House Joint Resolution 264 (1998), Senate Joint Resolution 366 (1999), and Senate Joint Resolution 331 (2005), have found that the financial expenses associated with adoption and child-rearing act to discourage adoption, particularly the adoption of children with special needs.

Currently, many other states, including the surrounding states of Maryland and West Virginia, offer some form of tax incentive for adoption. Maryland offers an income tax subtraction for taxpayers who pay reasonable and necessary adoption fees, court costs, attorney fees, and other expenses. This subtraction ranges from \$2,000 to \$6,000 depending on whether the child has a special need or is a resident of the state at the time of the adoption. West Virginia offers a \$2,000 income tax credit that may be claimed by taxpayers who adopt a child or children who are not related to the taxpayer by blood or marriage.

In addition, the federal government allows an individual income tax credit of up to \$10,960 for the amount of qualified adoption expenses paid or incurred by the taxpayer. "Qualified adoption expenses" are defined as reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are directly related to, and the principal purpose of which is for, the legal adoption of an eligible child. An "eligible child" is an individual who is under 18 years old, or is physically or mentally incapable of caring for himself or herself.

At this time, Virginia does not offer any tax incentives to those taxpayers who choose to adopt.

### Proposal

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### Similar Legislation

**House Bill 1879** would create a Virginia individual income tax credit equal to the amount of qualified adoption expenses paid by an individual, up to a total of \$4,000 for each adoption of a child.

cc : Secretary of Finance

Date: 1/26/2007 AMS  
SJ377F161