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[HF 351](#) – Adoption Tax Credit (LSB1167HV)  
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Fiscal Note Version – New

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**Description**

[House File 351](#) increases the [Adoption Tax Credit](#) from the current maximum of \$5,000 for each qualified adoption to \$7,500 for tax year (TY) 2024 and to \$10,000 for TY 2025 and after.

**Background**

The Adoption Tax Credit is a refundable credit available to individual income taxpayers who pay or incur unreimbursed expenses associated with the adoption of a child under 18 years old. Adoption expenses paid or incurred can be claimed in the tax year the adoption was finalized, up to the credit cap, regardless of the year in which the expenses were paid. If expenses are paid or incurred after the year the adoption is finalized, and the credit cap was not previously met, those expenses can be claimed in the year they were paid or incurred up to the credit cap. For tax years 2014 through 2016, the maximum amount of the tax credit was \$2,500 per adoption. Beginning on or after January 1, 2017, the maximum amount of the tax credit was increased to \$5,000 per adoption.

Qualified adoption expenses are defined as unreimbursed expenses paid or incurred in connection with the adoption of a child, including medical and hospital expenses of the biological mother that are incident to the child's birth, welfare agency fees, legal fees, and other fees and costs related to a qualified adoption.

**Assumptions**

- For TY 2021, 220 tax credits were claimed for adoptions and the average tax credit equaled \$3,164. Of the 220 adoptions, 87 claimed the maximum amount (\$5,000) and the adoption expenses of the remaining 133 adoptions averaged \$1,963. Tax year 2021 claims totaled \$696,000 in aggregate.
- For FY 2020 through FY 2022, aggregate Adoption Tax Credits averaged \$1.0 million annually.
- Based on the \$696,000 TY 2021 credit total and the average total for the past three fiscal years of \$1.0 million, it is assumed that the TY 2021 adoption credit claims were lower than a typical year. For this reason, an adjustment is made to the TY 2021 adoption totals to make the current law tax credit calculations equal \$1.0 million. After this adjustment, the number of adoptions that receive the tax credit under current law is estimated to be 310, with 125 of those adoptions exceeding the maximum tax credit available. The 310 and 125 adoption figures are utilized for all projection years.
- Adoption expenses that are in excess of the available tax credit are currently deductible for State tax purposes as an itemized deduction. To estimate the expenses incurred in the assumed 125 annual situations where adoption expenses exceed the \$5,000 maximum under current law, the Department of Revenue utilized TY 2021 tax return information.
- As a refundable tax credit, the Adoption Tax Credit does not impact the calculation of the income surtax for schools.

**Fiscal Impact**

Increasing the Adoption Tax Credit limit to a maximum of \$7,500 for TY 2024 and \$10,000 for TY 2025 and after is estimated to decrease net General Fund revenue by \$406,000 in FY 2025 and by \$775,000 annually for FY 2026 and after.

**Sources**

[Contingent Liability Report](#) (December 2022)  
Department of Revenue

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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