



[HF 2637](#) – Adoption Tax Credit, Amount (LSB5480HV)
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Fiscal Note Version – New

Description

[House File 2637](#) increases the maximum amount of the existing [Adoption Tax Credit](#) from \$5,000 to \$20,000 per qualified adoption and is retroactively effective for tax years beginning on or after January 1, 2023. The tax credit is refundable.

The Bill takes effect upon enactment.

Background

The existing Adoption Tax Credit is based on the amount of unreimbursed adoption expenses paid by the taxpayer as part of a qualified adoption and is claimed through the filing of Iowa tax form [IA 177](#). The credit may only be claimed after a qualified adoption becomes final. The credit limit applies per adoption (as opposed to per taxpayer or per household). 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. According to an Iowa Department of Revenue (IDR) [factsheet](#), from FY 2014 through FY 2020, 2,386 households claimed the tax credit for 2,966 adoptions. In tax year (TY) 2021, 220 tax credits were claimed for adoptions and the average tax credit equaled \$3,200. Of the 220 claims, 87 claimed the maximum amount of \$5,000. Adoption expenses reported on the IA 177 equal an average of \$9,800 in TY 2021 with a median of \$1,500. In FY 2023, \$898,000 was redeemed from the Adoption Tax Credit.

Qualified adoption expenses include 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 all other fees and costs that relate to the adoption of a child under 18 years of age.

Assumptions

- The tax reduction associated with changes to the tax credit is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).
- Because the tax credit is refundable, the calculation of the income surtax for schools is not affected by the proposed increase in the credit.
- The tax credit will be available to be claimed against individual income tax for tax years beginning on January 1, 2023, including TY 2023 and TY 2024.
- The initial fiscal impact for claims under the Bill will occur in FY 2025, including retroactive claims against TY 2023 and TY 2024.
- The total amount claimed against individual income tax for TY 2023 and TY 2024 equals \$2.4 million, to be applied against General Fund revenue in FY 2025.
- According to the IDR, it is assumed that 100.0% of the tax credits will be claimed, with the timing of claims indicated below:
 - Year 0 — 0.1%
 - Year 1 — 84.0%
 - Year 2 — 12.4%

- Year 3 — 2.0%
- Year 4 — 1.3%
- Year 5 — 0.2%
- The average adoption expense used for the purposes of this **Fiscal Note** is \$8,000 for 300 annual adoptions that redeem the tax credit.
- Adoption expenses are inflated at 1.0% annually beginning in TY 2025.

Fiscal Impact

House File 2637 is projected to decrease net General Fund revenue by the following amounts:

- FY 2025 = \$4.4 million
- FY 2026 = \$2.3 million
- FY 2027 = \$2.4 million
- FY 2028 = \$2.5 million
- FY 2029 = \$2.5 million
- FY 2030 = \$2.5 million

Sources

Iowa Department of Revenue
Legislative Services Agency analysis

/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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