

LEGISLATIVE FISCAL ESTIMATE TO  
**ASSEMBLY, No. 2087**  
**STATE OF NEW JERSEY**

DATED: NOVEMBER 22, 1996

Assembly Bill No.2087 of 1996 allows taxpayers to deduct adoption expenses from their gross income. Adoption expenses include fees, court costs, attorney fees and any expenses directly related to the adoption of a child. This deduction may not exceed \$5,000 and taxpayers with incomes exceeding \$115,000 (regardless of filing status) are not eligible to receive this deduction.

The Office of Legislative Services (OLS) estimates State revenue losses associated with this bill to be between \$66,000 and \$239,000. The disparity of this estimate is due to the fact that the income levels of adoptive parents are unknown. Availability of such information would make a more refined estimate possible.

According to information provided by the Division of Youth and Family Services (DYFS), there were 1,336 adoptions in New Jersey in 1994, the most recent year for which data are available. Of these, 593 were public adoptions performed through DYFS and 743 were private adoptions.

New Jerseyans who adopt a child using a public agency will not be eligible for the deduction contained in this bill. Public agencies arrange adoptions without charging a fee and, in most cases, an "adoption subsidy" is provided to defray expenses. This bill permits only the deduction of expenses associated with adoption. Because there are no expenses associated with public adoptions, this legislation will not provide a benefit to taxpayers who adopt using a public agency.

Private adoptions, by contrast, nearly always require significant outlays from prospective parents to pay for a variety of services associated with an adoption. These outlays regularly exceed \$10,000 and include, but are not limited to: attorney fees, maternity home care, preadoption foster care and medical care. International adoptions also require additional expenses including: travel, translation expenses, foreign agency fees and immigration fees.

Given these facts, the OLS has made certain assumptions that govern its fiscal estimate of this legislation. Because public agency adoptions will not be eligible for the deduction contained in this bill, the OLS omits them from further consideration. Second, because the cost of all private adoptions exceeds the \$5,000 deduction amount contained in this legislation, this estimate assumes that all private adoptions will qualify for the total deduction. To account for some measure of adoption growth between 1994 and the current year, this estimate assumes 750 private adoptions in 1996.

The minimum estimate was created by multiplying the \$5,000

deduction by 1.75 percent, the second lowest marginal gross income tax rate. (It is assumed that taxpayers with income below \$20,000 will generally not have the means to afford a private adoption.) At the 1.75 percent tax rate, each \$5,000 deduction is valued at a savings of \$87.50 for each taxpayer. By multiplying that savings by the total number of taxpayers the minimum cost of this bill to the State is roughly \$66,000. The maximum estimate was created by multiplying the \$5,000 deduction by 5.525 percent, the second highest gross income tax rate. At the 5.525 percent rate, each \$5,000 deduction is valued at a savings of \$276.25. Using the same methodology, the maximum cost of this bill to the State is estimated to be roughly \$239,000.

For the maximum estimate, this estimate assumes that all adoptive parents will be married. This assumption is important because this legislation makes no distinction between taxpayers who are married and taxpayers who are single. The gross income tax, however, does make such a distinction and that distinction taxes the same level of income earned by two married taxpayers at a lower rate than it taxes that income for a single taxpayer. As a result, when a married couple has an income of \$115,000, the eligibility cap for this bill's deduction, they are taxed at the 5.525 percent rate. Single taxpayers with \$115,000 in income are taxed at the highest 6.37 percent rate. Therefore, a single taxpayer can receive a larger benefit from this bill's deduction than can married taxpayers due to the graduated rates of the gross income tax. The lower 5.525 percent rate is used because it is reasonable to assume that all adoptive parents will not be single parents with incomes high enough to be taxed at the highest rate, yet not exceeding the \$115,000 eligibility cap. Historically, the majority of private adoptions are made to married taxpayers who, if eligible for this deduction, will be taxed at the 5.525 percent rate or lower. Therefore, the maximum estimate represents the potential upper limit of this bill's cost to the State.

The upper limit in this estimate assumes that *all* private adoptive parents will be eligible for this tax deduction. In fact, some will have incomes that exceed the eligibility limit contained in this bill. Similarly the minimum estimate assumes that *all* adoptive parents will have incomes that place them in the 1.75 percent gross income tax bracket. Although these high and low estimates are possible, they realistically represent a fiscal limit, given the available data, beyond which the cost of this bill will not rise or fall. Had data presenting the income distribution of private adoptive parents been available, a more precise estimate of this bill's impact would have been possible.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.