



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

STATEMENT OF ESTIMATED FISCAL IMPACT

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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number: S. 0121 Introduced on January 14, 2025
Subject: Adoption
Requestor: Senate Family and Veterans Services
RFA Analyst(s): Boggs and Jolliff
Impact Date: February 11, 2025

Fiscal Impact Summary

This bill requires safe havens to offer the person leaving an infant information provided by the Department of Social Services (DSS) concerning the legal effect of leaving the infant. Additionally, this bill makes changes to timeframes for permanency planning hearings and shortens the period that a court may order an extension for reunification efforts to fifteen months.

This bill adds that DSS must complete and file with the court a background investigation and report within sixty days of the filing of a petition to terminate parental rights. Further, the bill adds guidelines for postadoption agreements and allows them to be enforceable if agreed to by all parties.

Lastly, the bill creates an income tax credit of up to \$2,500, with a five-year carryforward, for any resident taxpayers who claims the federal tax credit for qualified adoption expenses related to a domestic adoption.

Judicial anticipates that allowing court enforcement of postadoption agreements may result in an increase in caseload in family court. However, as the number postadoption agreements that may require adjudication is unknown, the impact to the family court caseload is also unknown. For information, in FY 2023-24, 1,584 adoptions were filed in family court, which constitutes only 2.6 percent of court actions filed during that time. Given the small number of adoptions relative to other family court cases, it is anticipated that the potential increase in caseload can be managed within existing appropriations.

The bill is not expected to impact expenditures for the Department of Revenue (DOR) to administer the tax credit. We anticipate the agency will develop forms and guidance with existing staff during the annual updates to tax forms.

The fiscal impact of this bill is pending, contingent upon a response from DSS.

The bill is expected to decrease General Fund individual income tax revenue by up to \$1,552,000 beginning in FY 2025-26 for the new income tax credit for adoptions. Based on information provided by DOR, taxpayers will be allowed to claim the credit for adoptions occurring after the bill is signed by the Governor. Therefore, the impact in FY 2025-26 will depend on when the adoption occurs and may be less in the first year. For each subsequent year of the five-year

carryforward period, the impact will continue to grow as taxpayers claim carryforward amounts and additional taxpayers begin to claim the credit. When the credit is fully implemented, the total impact will be a General Fund individual income tax reduction of approximately \$2,156,000 in FY 2030-31. The actual timing of the impact may vary depending on the tax liability of the individuals claiming the credit.

Explanation of Fiscal Impact

Introduced on January 14, 2025

State Expenditure

This bill requires safe havens to offer the person leaving an infant information provided by DSS concerning the legal effect of leaving the infant. Additionally, this bill decreases the time in which a permanency planning hearing must be held to no later than nine months after the child is first placed in foster care. Further, this bill increases the frequency of permanency planning hearings from annually to quarterly after the termination of parental rights hearing.

This bill adds that DSS must complete and file with the court a background investigation and report within sixty days of the filing of a petition to terminate parental rights. Additionally, this bill decreases the time in which an extension may be granted for reunification efforts from eighteen months to fifteen months after a child is placed in foster care. Further, the bill adds guidelines for postadoption agreements and allows them to be enforceable if agreed to by all parties.

Lastly, the bill creates an income tax credit of up to \$2,500, with a five-year carryforward, for any resident taxpayers who claims the federal tax credit for qualified adoption expenses related to a domestic adoption.

Judicial anticipates that allowing court enforcement of postadoption agreements may result in an increase in caseload in family court. However, as the number postadoption agreements that may require adjudication is unknown, the impact to the family court caseload is also unknown. For information, in FY 2023-24, 1,584 adoptions were filed in family court, which constitutes only 2.6 percent of court actions filed during that time. Given the small number of adoptions relative to other family court cases, it is anticipated that the potential increase in caseload can be managed within existing appropriations.

Additionally, the bill is not expected to impact expenditures for DOR to administer the tax credit for adoptions. We anticipate the agency will develop forms and guidance with existing staff during the annual updates to tax forms.

The fiscal impact of this bill on DSS is pending, contingent upon a response from the agency.

State Revenue

The bill allows a resident taxpayer to claim a state individual income tax credit based on the federal tax credit for qualified adoption expenses related to a domestic adoption. The credit is

equal to the total amount of the federal credit earned up to \$2,500 for each child adopted. It may be taken in the year in which the federal credit is first claimed or carried forward for the next five tax years. The bill is effective upon signature by the Governor.

According to the Internal Revenue Service (IRS), taxpayers are allowed to claim a federal tax credit for qualified adoption expenses paid to adopt an eligible child and an exclusion from income for employer-provided adoption assistance. The credit is nonrefundable. However, the credit may be carried forward for up to five years. The maximum amount of the federal credit for 2025 is \$17,280 per child. The IRS publishes estimates of total tax credits for the US based on a sample of tax returns. For 2022, 57,700 total US tax returns reported \$257,701,000 in federal adoption credits. Based on these figures, we determined an average federal adoption tax credit for the US of \$4,466 in 2022. As this amount exceeds the state maximum of \$2,500, we anticipate that most returns will claim the maximum. Further, the IRS also publishes the distribution of the returns claiming the credit by federal adjusted gross income range. For this analysis we have assumed that the distribution of state returns will follow a similar pattern and have used these data to estimate the income ranges for these taxpayers and their tax liabilities.

Adoption expenses range widely, largely depending on whether the adoption is public or private. Public adoptions are much less expensive than private adoptions, and assistance is available to offset costs. According to AdoptUSKids.org, most public adoptions have few or no fees.¹ DSS will reimburse families adopting children from foster care up to \$1,500 per child for legal fees and other expenses related to the adoption.² Private adoptions, however, average from \$25,000 to \$48,500 according to Adoption.org.³ For private adoptions, only children who meet DSS's definition of special needs and have an adoption subsidy agreement signed prior to the finalization of their adoption are eligible for reimbursement up to \$1,500. Based on the cost of adoptions, we anticipate that the credit will largely apply to private adoptions.

In FY 2023-24, Judicial family court filings included 1,584 domestic adoptions and 13 foreign adoptions.⁴ Further, DSS reports 645 public adoptions in 2023 and 548 in 2024, for an average of 597.⁵ Subtracting an average of 597 public adoptions from the total 1,584 domestic adoptions, we estimate that there are approximately 987 private domestic adoptions in a year.

In total for 2019, 115,353 children were adopted in the US.⁶ Based on the number of court filings for adoptions in SC around the same period, approximately 1.5 percent of adoptions occurred in

¹ AdoptUSKids.org, *What is the cost of adoption from foster care?*, Retrieved January 3, 2023, <https://www.adoptuskids.org/adoption-and-foster-care/overview/what-does-it-cost>

² SC Department of Social Services, *Adoption Assistance*, Retrieved February 3, 2025, <https://dss.sc.gov/child-well-being/adoption/adoption-assistance/south-carolina-assistance-benefits/>

³ Adoption.org, *How much does private adoption cost?*, June 18, 2019, <https://adoption.org/much-private-adoption-cost>

⁴ SC Judicial Department, Filed Civil Nature of Action, Filings for 7/1/2023 thru 6/30/2024, Retrieved February 3, 2025, https://www.sccourts.org/media/annualReports/2023-2024/FCNOA_F.pdf

⁵ SC Department of Social Services, Finalized Adoptions Dashboard, Retrieved January 31, 2025, <https://dss.sc.gov/about/data-and-resources/finalized-adoptions-dashboard/>

⁶ Koh, Eun, et. al., National Council for Adoption, *Adoption by the Numbers*, 2019-2020, <https://adoptioncouncil.org/research/adoption-by-the-numbers/>

our state, which is comparable to our percentage of national population. By then applying the 1.5 percent rate to the 57,700 total US tax returns claiming the federal adoption credit in 2022, we would expect that approximately 866 returns will claim the SC credit, or 88 percent of the estimated 987 private adoptions.

Not all taxpayers will have a sufficient state tax liability to claim the full credit in the first year, FY 2025-26. For each year, the impact will continue to grow as taxpayers claim carryforward amounts and additional taxpayers begin to claim the credit. To estimate the impact by year, we used the IRS distribution of tax credits by federal adjusted gross income range to estimate the amount that SC taxpayers will be able to claim annually based on our state tax returns and corresponding liabilities for the income ranges. The total General Fund impact will be realized in FY 2030-31 when the full five-year carryforward period is implemented.

The table below outlines the estimated impact by fiscal year based on these calculations. The impact for the first year will be up to \$1,552,000 in FY 2025-26. The actual timing of the impact may vary depending on the tax liability of the individuals claiming the credit. Further, based on information provided by DOR, taxpayers will be allowed to claim the credit for adoptions occurring after the bill is signed by the Governor, and the impact in FY 2025-26 may be affected by this timing. When the credit is fully implemented, the total impact will be a General Fund individual income tax reduction of approximately \$2,156,000 in FY 2030-31.

Fiscal Year	Initial Impact of Credit and Carryforward	Total General Fund Impact
FY 2025-26	(\$1,552,000)	(\$1,552,000)
FY 2026-27	(\$449,000)	(\$2,001,000)
FY 2027-28	(\$88,000)	(\$2,089,000)
FY 2028-29	(\$45,000)	(\$2,134,000)
FY 2029-30	(\$11,000)	(\$2,145,000)
FY 2030-31	(\$11,000)	(\$2,156,000)

Local Expenditure

N/A

Local Revenue

N/A

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