**Testimony on SB 2**

*Senate Committee on Appropriations*

*Tuesday, July 26, 2022*

*Andy Nielsen, Indiana Community Action Poverty Institute*

* Thank you, Chair Mishler and members of the Committee.
* My name is Andy Nielsen, and I am the senior policy analyst at the Indiana Community Action Poverty Institute.
* We are a program of the Indiana Community Action Association, which is a statewide organization representing the 22 Community Action Agencies that work tirelessly to address community needs and fight poverty in all 92 Indiana counties.
* Thank you for the opportunity to testify today on SB 2, specifically regarding Section 2 of the bill as it relates to the changes made to the state adoption tax credit.
* SB 2:
  + Increases the maximum state credit from $1,000 to $10,000.
  + Maintains the credit’s nonrefundable status lesser of federal or state credit
* While the state credit increases by a factor of ten, Indiana taxpayers would be unable to realize the full value of the credit, because the income required to generate $10,000 in state tax liability would disqualify the taxpayer from the federal credit altogether, and therefore make them ineligible for a state tax credit.
* To receive the maximum federal tax credit ($14,440), taxpayers could earn a maximum income of $217,000 ($216,660), and the federal credit phases out completely at $257,000 ($256,660).
* However to generate the state tax liability to use the $10,000 state credit, a taxpayer would have to earn, at a minimum, $318,000 ($318,460.32), disqualifying them altogether from the federal credit and therefore the state credit as well.
* In order to both maximize the state credit while also maintaining eligibility under the federal income guidelines, the maximum state credit is ~$7,400 ($7,406.98 at $236,142.06).
* So when we are thinking about the impact on low- and moderate-income families, again, they do not have the tax liability to use the credit.
* And since the credit is nonrefundable, the net effect is that more adoption costs are being subsidized (reimbursed) by the state for higher-earning individuals and families.
* This would also hit older Hoosiers who are choosing to adopt who may rely solely on Social Security benefits that not taxed in Indiana.
* Making the credit fully refundable would be a positive improvement that would benefit all qualifying families up to the income guidelines set by the federal government.
* Or conversely, the General Assembly could simplify the state credit to allow for a standard amount of reimbursement (through tax credits) of expenses over the lifetime of the adoption process.
* Again, I appreciate the opportunity to testify on this bill today.
* And I am happy to answer any questions.
* Thank you.