THE IMPORTANCE OF THE ADOPTION TAX CREDIT

The adoption tax credit is a bipartisan credit that has existed since 1997. It advances an important public goal by encouraging domestic and international adoptions, especially for children with special needs who otherwise might linger in costly foster care. By offsetting some of the costs of adoption or of caring for a child with special needs, the tax credit makes adoption a more viable option for many children and families. The Congressional record highlights the significance of the credit at its inception: "...this may make the difference between a child in foster care becoming part of an adoptive family or remaining in foster care indefinitely."

How does the adoption tax credit currently work?
In 2015, families adopting children can claim up to $13,400 per child. Qualified expenses include adoption fees, attorney fees, court costs, travel expenses, and re-adoption expenses for intercountry adoptions. Families who adopt a child whom the state determines has special needs can claim the maximum credit regardless of their actual expenses. Families can benefit only if they have federal income tax liability; current law allows it to be applied toward liability over a six-year period.

Why is it important to encourage the adoption of children with the adoption tax credit?
Children and youth deserve a permanent family, and research has shown that financial support can encourage adoption of waiting children, including children in foster care. Poor outcomes are common for youth who exit foster care without stable families. Studies of youth who "aged-out" of the foster care system on their own found that:

- 58% of foster youth graduate high school by age 19.
- 1 in 4 will be involved in the justice system 2 years after aging out of care.
- Only 50% will be employed by age 24.
- 71% of young women will be pregnant by age 21.
- 76% more likely to be employed.

Compared to children who remain in foster care, children who are adopted have been shown to be 54 percent less likely to be delinquent or arrested, 19 percent less likely to become a teen parent, and additionally, children awaiting intercountry adoption face similar challenges globally: increased risk of sex and labor trafficking, gang and crime involvement, and suicide as well as decreased likelihood of completed education, stable employment, and family stability.

What are the cost savings associated with the adoption of children?
A study conducted by Barth et al., and reported by the federal Children’s Bureau, showed that the government saves between $65,000 and $127,000 for each child who is adopted rather than placed in long-term foster care. Studies have shown that youth who are adopted are more likely to be contributing members of society. When compared to their peers who age out of care, adopted youth are more likely to complete college, be employed, and earn adequate income.

Who are adoptive families?
Although adoptive families vary, 62 percent of adopted children are adopted by lower and middle-income taxpayers. Almost half of children adopted from care live in families with household incomes at or below 200 percent of the federal poverty level.

Why should the credit be refundable?
Right now the credit disadvantages low- and middle-income families and may prevent them from adopting children who need a family. Adoptive families who have low or moderate incomes receive no benefit or partial benefit from the non-refundable adoption tax credit. Families with annual incomes between $30,000 and $50,000 could only claim on average $1,148 of the credit annually ($6,668 over six years). This means the credit inadvertently benefits high income families the most. Some low- and middle-income families will not be able to adopt without the support of a refundable adoption tax credit. When the credit was refundable, many adoptive parents (both domestic and intercountry) also noted that accessing the credit for a first adoption enabled them to adopt a second child.