

VALUING ALL FAMILIES

Making the Adoption Tax Credit Refundable



**Adoption
Tax Credit
ADVOCATES**

WHAT IS IT?

Since 1997, the adoption tax credit has enjoyed broad, bipartisan Congressional support. Hundreds of thousands of families have relied on this credit, which allows qualifying families to receive a tax credit as they seek to build their family through adoption. Thanks to the power of adoption advocates' voices, Congress preserved the adoption tax credit in the recent tax reform law. But more must be done. Congress should now restore refundability to the credit to help even more children in need of a family.

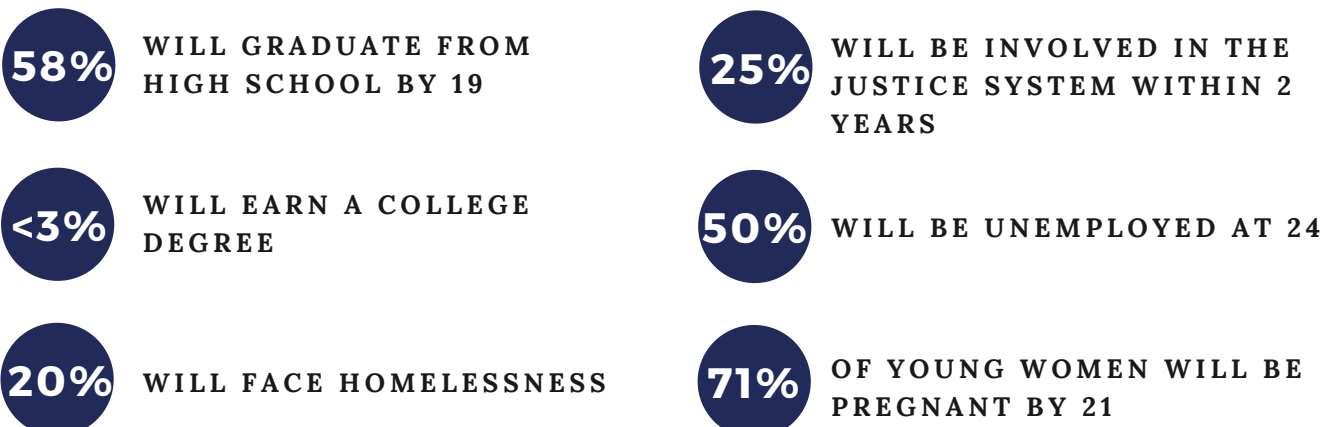
HOW DOES IT WORK CURRENTLY?

The adoption tax credit is available to families who adopt from foster care or through private domestic adoptions or intercountry adoption. When a child is adopted, the adoptive family may claim up to a \$15,950 tax credit for qualified adoption expenses. Families who make more than \$239,230 annually may only claim a partial credit and no credit can be claimed by families making more than \$279,230. Families who adopt a child with special needs from foster care may claim the maximum credit without having qualified expenses. However, because the adoption tax credit is currently a non-refundable tax credit, the amount a family can actually use depends on their income and federal income tax liability. As a result, many middle- or lower-income families can never use any of the credit at all.

WHY IS REFUNDABILITY IMPORTANT?

For many Americans, this credit can make a huge difference on their journey to building their families. Adoption creates better outcomes for children and significant government cost savings. Research has shown that financial support can encourage adoption. Despite the common misperception that only wealthy families adopt, nearly 46 percent of children adopted from foster care live in families with incomes at or below 200 percent of the federal poverty level. This means a refundable credit will make it possible for more Americans to adopt and more children have an opportunity to have a permanent, loving family (1).

OUTCOMES FOR YOUTH WHO AGE OUT OF FOSTER CARE ARE OFTEN DIRE AND COME WITH SIGNIFICANT COSTS: (2)



1. Office of Senator James Inhofe (2019) "Inhofe, Blunt, Casey Introduce bill to make adoption more affordable for families."

2. Child Trends (2017) "Supporting Young People Transitioning From Care: Findings from a National Survey."

THE ADOPTION TAX CREDIT REFUNDABILITY ACT OF 2021

What you need to know

The adoption tax credit was made permanent in the American Taxpayer Relief Act in January 2013. However, that law did not include the refundability provisions that applied to the adoption tax credit in 2010 and 2011. The Adoption Tax Credit Refundability Act would restore the refundable portion of this critical support for families wishing to adopt.

**ADOPTIVE FAMILIES WHO
BENEFITED FROM THE
REFUNDABLE CREDIT IN 2010**

62%

**ADOPTIVE FAMILIES WHO
RECEIVED THE CREDIT WITH
INCOMES BELOW \$50,000**

25%

**PUBLIC COST OF A YOUTH
AGING OUT OF CARE (3)**

\$300K

In 2023, Senators Bob Casey (D-PA) and Kevin Cramer (R-ND) and Representatives Danny Davis (D-IL) and Blake Moore (R-UT) introduced the Adoption Tax Credit Refundability Act of 2023, S. 2895 and H.R. 3662, respectively.

Data from 2010 tax filings indicate that nearly 62 percent of families who filed for the adoption tax credit benefited from refundability. Forty-one percent of families who benefited from refundability (25 percent of all families who took the tax credit) had AGIs under \$50,000.

These data indicate that a refundable adoption tax credit plays a significant role in middle- and lower-income families' ability to adopt and support a child from foster care. Older data from a 2006 study cited by HHS demonstrate a significant financial benefit to society, as well: the cost of adoption and permanency is significantly lower than the cost to federal, state and local governments to provide long-term foster care.

