

VALUING ALL FAMILIES

Making the Adoption Tax Credit Refundable



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 \$13,840 tax credit for qualified adoption expenses. Families who make more than \$207,580 annually may only claim a partial credit and no credit can be claimed by families making more than \$247,580. 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 FOSTER CARE ARE OFTEN DIRE AND COME WITH SIGNIFICANT COSTS: (2)

58% GRADUATE FROM HIGH SCHOOL BY 19

25% WILL BE INVOLVED IN THE JUSTICE SYSTEM WITHIN 2 YEARS

<3% WILL EARN A COLLEGE DEGREE

50% WILL BE UNEMPLOYED AT 24

20% WILL FACE HOMELESSNESS

71% OF YOUNG WOMEN WILL BE PREGNANT BY 21

1. (2019, June 10). Retrieved from <https://www.inhofe.senate.gov/newsroom/press-releases/inhofe-blunt-casey-introduce-bill-to-make-adoption-more-affordable-for-families>

2. Jim Casey Youth Opportunities Initiative. <http://www.jimcaseyouth.org> 3. Zill, N. (2011). Adoption from Foster Care: Aiding Children While Saving Public Money

THE ADOPTION TAX CREDIT REFUNDABILITY ACT OF 2019

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

\$300K

In 2019, Senators Jim Inhofe (R-OK), Roy Blunt (R-MO), and Bob Casey (D-PA) and Representatives Danny Davis (D-IL) and Jackie Walorski (R-IN) introduced the Adoption Tax Credit Refundability Act of 2019, S. 1652 and H.R. 2965, 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.

