Valuing All Families

Maintaining the Adoption Tax Credit

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.

How does it work?

The adoption tax credit is available to families who adopt from foster care, private domestic adoptions, and intercountry adoption. When a child is adopted, the adoptive family may claim up to $13,460 tax credit for qualified adoption expenses. Families who make more than $201,920 annually may only claim a partial credit and no credit can be claimed by families making more than $241,920. Families who adopt a special needs child from foster care may claim the maximum credit and do not need to have qualified expenses. The amount of the credit a family can actually use depends on their income and federal income tax liability. Some families can never use the credit.

Why is it important?

Plain and simple, adoption can be very expensive. Because there are so many variables, there is no “average price” of adoptions. 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.

- The government saves between $65,000 to $127,000 for each child who is adopted rather than placed in long-term foster care(1).

Outcomes for youth who remain in foster care are dire and come with significant costs: (2)

- Only 58% graduate high school by 19
- <3% will earn a college degree
- 1 in 5 will face homelessness
- 1 in 4 will be involved in the justice system within two years
- Only 50% will be employed by 24
- 71% of young women are pregnant by 21
- 1 in 4 will experience PTSD

Adoptive families compared to foster families are: (3)

- 1/2 as likely to need TANF or other cash welfare benefits
- 1/3 as likely to receive food stamps
- 1/2 as likely to be one where no adult works full time
- 1/2 as likely to be living below the poverty level

Who are typical adoptive families?

Adoptive families are virtually everywhere, are diverse and have widely varying income levels. Although adoptive families vary, 62% of children are adopted by lower- and middle-income taxpayers.

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1. R.P. Barth, C.K. Lee, J. Wildfire, and S. Guo, “A Comparison of the Governmental Costs of Long-Term Foster Care and Adoption, “Social Service Review (March 2006).
2. Jim Casey Youth Opportunities Initiative. Http://www.jimcaseyyouth.org 3. Zill, N. (2011). Adoption from Foster Care: Aiding Children While Saving Public Money

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Frequently Asked Questions

Who is the adoption tax credit for?

The adoption tax credit is available to families who adopt a child through foster care, intercountry adoption, or private adoption. Families can claim the credit once for each adopted child. In 2016, families could claim up to $13,460 per child. How much a family can claim is based on the qualified adoption expenses they incur. Families who participate in special needs adoptions, which involve children who are considered harder to place from foster care, can claim the maximum credit.

Who is allowed to claim the credit?

Families can claim the credit if they incurred qualified adoption expenses or completed a special needs adoption. The credit is limited to a partial credit for families with adjusted gross incomes between $201,920 and $241,920. As such, families who have adjusted gross incomes of more than $241,920 cannot claim the credit.

The credit is nonrefundable, so it reduces income tax liability. That means only families who have federal income tax liability can benefit. If a family does not have enough tax liability to claim the full credit in the first year, they have up to five additional years to use the credit. After six years, any unused credit is lost. For some, this means they can *claim* the credit but cannot *use* it.

Who benefits from the credit?

Children who need families

Children who need an adoptive family see the greatest benefit. The adoption tax credit helps encourage adoption and eases the financial burden that adoptive families sometimes face. As a result, children benefit from the safety, stability, and wellbeing that come from a permanent, loving family who is able to meet their needs.

Adoptive families

The benefit to adoptive families is clear. This tax credit makes adoption possible for many and, in other cases, allows families to make accommodations so their homes are safe for children with disabilities or to support their children's medical and therapeutic needs. Many parents say the credit helped give them the financial ability to bring more children into their family through adoption.

Does the credit save money?

Yes, when children are adopted—compared to staying in long-term foster care—the government saves between $65,000 to $127,000 per child. Further, the difficult outcomes for children who do not have a family come with significant costs. We know that youth who age out of foster care without a family are less likely to complete high school and go on to higher education; are more likely to face homelessness, unemployment, and mental illness; and women are 71% more likely to become pregnant by age 21. Globally, children without families face similar, costly crises including increased risks of sex and labor trafficking, gang and crime involvement, suicide and decreased likelihood of completed education, stable employment, and family stability.

What sorts of families claim the credit?

Adoptive families vary. They come from diverse incomes and backgrounds, and you can find them in almost every community across the U.S. We know 62% of adoptive families are lower- and middle-income taxpayers. Almost half of children adopted from foster care live in families with household incomes at or below 200 percent of the federal poverty level.

What's an example of how the credit works?

In 2014, Adam and Sarah adopted 6-year-old Billy from the foster care system. Because this was considered a special needs adoption, they were able to claim the full credit, $13,190, when they filed their tax returns for that year. The tax credit forgives much of their tax liability and the refund they received helped them afford excellent care to meet Billy's special medical and therapeutic needs. A few years later, in 2017, they adopted again—this time a newborn baby, Emma. During the adoption process, they spent more than $16,000 in qualified adoption expenses. Because Adam had stopped working to stay home with Billy, the couple's income is far less than before—leaving them with only about $1,200 in tax liability each year. Although they are eligible to claim the $13,570 credit, they'll only be able to receive about $7,200 of it. And they'll only receive that amount in increments of $1,200 per year by carrying forward the credit for the permitted 5 years. Unfortunately, Adam and Sarah's adoptions didn't happen when the adoption tax credit was refundable (in 2010 and 2011). With a refundable adoption tax credit, any family who was eligible could take full advantage of the credit. Families wouldn't have to be higher earners who have more tax liability.

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