

# Voice for Adoption

SPEAKING OUT FOR OUR NATION'S WAITING CHILDREN

## MAKE THE ADOPTION TAX CREDIT WORK FOR WAITING FOSTER CHILDREN

Voice for Adoption (VFA) encourages Congress to make the adoption tax credit work better to promote adoptions of waiting children in foster care and to provide accessible support for families who adopt children from foster care.

### Who Benefits from the Adoption Tax Credit?

Data from a recent IRS report<sup>1</sup> on the adoption tax credit reveal that the credit, as it is currently structured, is not meeting its original goal of promoting adoptions from foster care. The following data highlight the significant gap between the current beneficiaries of the credit and the goal of having the credit encourage foster care adoptions:

- The vast majority (82 percent) of adoption tax credit recipients completed private or foreign adoptions rather than adoptions from foster care.
- Almost all international adoptions benefited from the tax credit, compared to only approximately 25 percent of foster care adoptions.
- Higher-income families disproportionately benefit from the tax credit. Families with incomes above \$75,000 received two-thirds of the dollars claimed through the credit.
- The credit primarily supports adoptions of young children; more than 70 percent of the tax credit dollars benefited adoptions of children age five and under, despite the fact that 47 percent of the children in foster care who are waiting to be adopted are age 9 or older.

Percent of Foster Care Adoptions by State for which Adoption Tax Credit Benefits were Claimed in 2004			
South Carolina	81%	Alabama	20%
Wyoming	61%	Texas	20%
Arizona	40%	Georgia	19%
Utah	39%	Michigan	19%
Washington	36%	Oregon	18%
Vermont	35%	Delaware	18%
New Mexico	35%	Mississippi	18%
Nevada	34%	Montana	18%
Idaho	34%	Hawaii	17%
Minnesota	33%	Kentucky	17%
Virginia	33%	Pennsylvania	17%
New Hampshire	31%	Illinois	17%
Connecticut	30%	California	15%
North Dakota	30%	Florida	15%
Iowa	28%	Massachusetts	14%
Maine	26%	Arkansas	14%
Alaska	25%	Nebraska	13%
Wisconsin	24%	South Dakota	12%
Tennessee	23%	Rhode Island	12%
North Carolina	23%	West Virginia	11%
Kansas	22%	Louisiana	11%
Indiana	21%	Oklahoma	11%
Ohio	21%	New Jersey	10%
Colorado	20%	New York	6%
Missouri	20%	District of Columbia	5%
Maryland	20%		

\* Table from "The Adoption Tax Credit: Is it an Effective Approach to Promote Foster Care Adoption?" Child Trends Research Brief. 2007.

<sup>1</sup> U.S. Department of the Treasury Office of Tax Analysis, "Federal Income Tax Benefits for Adoption: Use by Taxpayers 1999 – 2005." June 2007.

One of the significant barriers that prevents families who adopt foster children from receiving the benefits of the adoption tax credit is that these families tend to have lower incomes and therefore do not have enough of a tax liability to be able to claim the full value of the tax credit. Increasing awareness of the availability of the adoption tax credit may enable more high-income families to benefit from the credit, but raising public awareness will not make a significant difference in increasing the number of adoptions from foster care that are supported by the tax credit. For the adoption tax credit to be effective in supporting adoptions from foster care, it must be structured in a way that allows lower-income families to claim the credit, even if they do not have a high tax liability.

**VFA’s Key Principles for the Adoption Tax Credit**

Any extension of the adoption tax credit should ensure that the credit:

- Is effective at promoting and supporting adoptions of waiting children in foster care
- Is beneficial for families who adopt children with special needs from foster care
- Accounts for the fact that many of the expenses associated with adopting from foster care show up after the adoption is finalized

<b>Principle</b>	<b>Policy Solution</b>
Be effective at promoting and encouraging adoptions of waiting children in foster care	➔ Require states to share information about the tax credit with prospective adoptive parents.
Benefit families who adopt children with special needs from foster care	➔ Make the tax credit refundable, at least for families adopting from foster care.
Account for the fact that many of the expenses associated with adopting from foster care show up after the adoption is finalized	➔ Keep the tax credit provision that does not require parents who adopt foster children with special needs to document qualified adoption expenses.