

Adoption Tax Credit

History and Status under Current Law

Apart from the ongoing costs of raising a child, the one-time costs of adopting often rise to \$20,000 - \$30,000. Intending to make the one-time costs of adoption more affordable and promote adoption, Congress has subsidized these costs in some form since 1981. At first the costs were made tax deductible. Congress also created a program for states to give direct cash grants for special needs adoptions. Eventually, the tax credit was created. At first, only special needs adoptions were eligible, but since 1996 all adoptions have been eligible for the tax credit.

Because of the way the laws creating and changing the adoption tax credit were written, various provisions of the credit expire after a set amount of time and have to be revisited by Congress if they are to stay in place. This chart is intended to help clarify the current provisions and the situation for the next two years unless further legislation is enacted. The amount of the tax credit, whether or not it is immediately refundable regardless of taxes owed, and eligibility are some of the key provisions that are in flux.

<u>2011</u>	<u>2012</u>	<u>2013 and later</u>
Amount: \$13,360	Amount: \$12,170 (based on original 2010 amount – should be slightly higher once adjusted for inflation)	Amount: \$6,000 (will not be adjusted for inflation)
Refundable: Yes	Refundable: No*	Refundable: No*
Eligibility: All Adoptions	Eligibility: All Adoptions	Eligibility: Special Needs Adoptions only

*Even though it is not refundable, the value of the credit can still be carried forward and claimed against taxes owed for up to 5 years.

Legislative Future

The Adoption Tax Credit has enjoyed wide bi-partisan support in the past; however the federal government is an extreme amount of debt. Even very worthwhile endeavors will be examined very closely as Congress tries to balance the budget. In addition, many Members of Congress think we should fundamentally reform the tax code by eliminating deductions and tax credits while lowering overall rates. These factors make the future of the tax credit uncertain in the long term. In the short term, several bills have been introduced to extend the 2001 tax cuts in whole or in part. Most of these include the adoption tax credit in the extension. None of these bills have seen any action so far, and it is possible Congress might not act to extend the credit until the end of 2012.