

File: adoption



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Subject: LRM IKK16 - - TREASURY Study on Tax Benefits for Adoption. Please Provide Comments by 4:00 PM on Friday, September 22, 2000. Thank you.

Attached is a study that was mandated by the Small Business Job Protection Act of 1996 (P.L. 104-188), which required Treasury to report to Congress on the effect on adoptions of two tax provisions to assist families who adopt children. Treasury would like to be able to release this report early next week.

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**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001**

Thursday, September 21, 2000

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below
FROM: Richard E. Green (for) Assistant Director for Legislative Reference
OMB CONTACT: Irene Kho
PHONE: (202)395-5858 FAX: (202)395-3109
SUBJECT: **TREASURY Study on Tax Benefits for Adoption**

DEADLINE: **4:00 PM Friday, September 22, 2000**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: This study was mandated by the Small Business Job Protection Act of 1996 (P.L. 104-188), which required Treasury to report to Congress on the effect on adoptions of two tax provisions to assist families who adopt children. Treasury would like to be able to release this report early next week.

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September 19, 2000

Report to The Congress on

TAX BENEFITS FOR ADOPTION



Department of the Treasury
Office of Tax Policy

September 2000

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Chapter I

INTRODUCTION AND SUMMARY

MANDATE FOR THE STUDY

The Small Business Job Protection Act of 1996 (P.L. 104-188) included two related tax provisions to assist families who adopt children, to be effective beginning in tax year 1997. The first provision is a tax credit of 100 percent of the first \$5,000 (\$6,000 for adoptions of children with special needs) of qualified expenses incurred in the adoption process.¹ The second provision is an exclusion of up to \$5,000 per adoption (\$6,000 for adoptions of children with special needs) for certain employer-paid or employer-reimbursed adoption expenses.² Taxpayers may use both provisions for a single adoption, but not for the same expenses. Benefits are phased out above certain income levels. Neither the tax credit nor the exclusion applies to adoptions by stepparents. The tax credit generally sunsets after 2001, but is permanent with respect to adoptions of children with special needs. The employer exclusion sunsets after 2001. ↗

The Small Business Job Protection Act also included a provision directing the Secretary of the Treasury to “study the effect on adoptions” of the tax credit and exclusion and to submit a report of the study to the House Ways and Means Committee and the Senate Finance Committee.³ This report is in response to the Congressional mandate and is based on data regarding taxpayers’ use of both adoption provisions during their first two years of availability, tax years 1997 and 1998.

DATA ON ADOPTIONS

74,000 The most recent comprehensive effort to collect adoption statistics reported a total of 127,000 children adopted in 1992 (including 53,000 stepparent adoptions).^{4,5} However, this total is slightly understated because it does not include adoptions of foreign children in states that do not use the state courts to report adoptions. Based on the limited data for 1997, the number of adoptions in 1997 appears to be about 130,000. Assuming no further change in the total and assuming that the number of stepparent adoptions remained at about 53,000 implies that about 77,000 adoptions completed were potentially eligible for the credit or exclusion in 1998, the first

¹ Section 1807 of the Act and section 23 of the Internal Revenue Code of 1986.

² Section 1807 of the Act and section 137 of the Internal Revenue Code of 1986.

³ Section 1807(d) of the Act.

⁴ Flango, Victor and Flango, Carol, “How Many Children Were Adopted in 1992,” *Child Welfare*, Vol. LXXIV #5, September/October 1995. pp. 1018-1031.

⁵ For ease of discussion and to avoid the appearance of undue precision, numbers of taxpayers and adoptions have been rounded in the text. Computed amounts, such as average expenses, have been calculated from the unrounded values.

full year for which tax return data are available.⁶ The number of adoptions that actually received benefits in 1998 was about 48,000. Two major factors account for the approximately 29,000 potentially eligible adoptions that did not receive tax benefits for 1998. First, the costs of adopting children with special needs are eligible for reimbursement through government expenditure programs, and, in many cases, these reimbursements appear to fully cover the costs of the adoptions. There were 31,000 adoptions of children with special needs in 1998, only 4,600 of which received tax benefits. Second, the tax benefits for adoption are available only to taxpayers with modified adjusted gross incomes below \$115,000.

SUMMARY OF UTILIZATION OF TAX BENEFITS ON 1998 RETURNS

All adoptions. For tax year 1998, 43,400 taxpayers received income tax benefits for \$289 million of adoption expenses paid or reimbursed in connection with 48,200 adoptions. 42,600 taxpayers received benefits from the tax credit. 3,100 taxpayers received tax benefits from the exclusion, of whom only 750 did not also benefit from the tax credit. Adoption expenses generated \$129.2 million of tax credits (99 percent of total tax benefits), and exclusions for employer reimbursements generated \$1.7 million of tax reduction (1 percent of total tax benefits), for a total of \$130.9 million. Including carry forwards of unused credits from 1997, taxpayers were able to use adoption tax credits of \$104.2 million in 1998.⁷ Taxpayers carried forward to 1999 unused 1997 and 1998 tax credits of \$54.4 million.

Qualified adoption expenses reported on 1998 tax returns averaged \$6,006 per adoption. Fifty percent of returns reported qualified adoption expenses (including employer reimbursements) of under \$5,000; 63 percent were under \$6,000; and 26 percent were over \$10,000.

Adoptions of children with special needs. Tax benefits were received in 1998 for expenses reported in connection with the adoptions of 4,600 children with special needs, or only about 15 percent of all adoptions of children with special needs. Apparently, the out-of-pocket costs of other adoptions of children with special needs (which otherwise would be eligible for the tax benefits) were covered by nontax government programs. Only 7 percent of total adoption tax benefits were for adoptions of children with special needs.

The associated expenses for adoptions of children with special needs for whom tax benefits were received generated \$10.5 million of tax benefits, all but \$0.1 million of which were from the tax credit. Average qualified expenses were \$3,542 per adoption, which is 41 percent lower than for adoptions overall. Sixty-six percent of returns reported qualified adoption expenses of under \$5,000; 71 percent were under \$6,000; and 12 percent were over \$10,000.

⁶ Because 1997 was the first year in which adoption tax benefits were available, some taxpayers may have failed to report adoption tax benefits on their initial 1997 returns. Even if such benefits were later claimed on amended tax returns, they are not included in the data used for this report. See Chapter 4 for further discussion.

⁷ Tax credits generated in a year but which cannot be used because they exceed tax liability may be carried forward and used during the five subsequent years.

Adoptions of foreign children. The 13,400 adoptions of foreign children for 1998 generated \$48.5 million of tax benefits (37 percent of the total), all but \$0.5 million of which were from the tax credit. Average qualified expenses were \$10,284 per adoption, which is more than twice the average for non-foreign, non-special needs children. Nineteen percent of taxpayers with adoptions of foreign children had expenses of less than \$5,000, 34 percent had expenses of under \$6,000, and 55 percent had expenses of more than \$10,000. Families undertaking adoptions of foreign children tended to have higher average incomes than other adoptive families.

Distribution of Benefits. Families need substantial income in order to use the benefits from the maximum possible tax credit. A family without any other dependents would need to have at least \$52,400 of income (in 2000) to fully utilize a \$5,000 adoption tax credit in one year. An annual income of \$24,650 would be required to use such a benefit over a six year period, although in that situation the tax benefit would not be able to offset adoption expenses as they were incurred.⁸ Higher levels of income would be necessary if taxpayers itemize deductions, use the child and dependent care credit, have additional children, or undertake additional adoptions.⁹

Lower income families undertake only about 8 percent of the adoptions in 1998 for which tax benefits are reported. Because of their low tax liability, such families must carry forward most of the adoption tax credits they do generate.

GENERAL OBSERVATIONS

Adopting families generally incur significant expenses related to the adoption. The adoption tax provisions help these families meet their adoption expenses. The provisions may also encourage additional families to consider adoption. The effect of the provisions on the number of adoptions is likely to vary by the type of adoptive child.

Adoptions of domestic, non-special needs children. There is substantial evidence that the number of healthy, domestic infants available for adoption is less than the number of families seeking to adopt such infants. Thus, tax benefits cannot be expected to increase the number of such adoptions. Even without changing the total number of adoptions of healthy domestic infants, tax benefits may increase the number of families, especially middle-income families, seeking to adopt and may change the mix of income levels of families which are successful.

What about
increasing
for other
children?

Adoptions of foreign children. By lowering the net costs of adoption, the tax benefits for adoption may increase the number of adoptions of foreign children. The number of adoptions of foreign children has been increasing, although the annual increases began prior to enactment of the tax benefits.

⁸ To use the full \$6,000 credit for adoption of a special needs child in one year would require a minimum income of \$59,100. To use it over six years would require income of at least \$25,750.

⁹ Required incomes in future years would be higher due to the annual indexing of personal exemptions, the standard deduction, and tax bracket widths for the effects of inflation.

Adoptions of children with special needs. The effect of the adoption tax benefits on the number of adoptions of children with special needs is uncertain. By lowering the costs to adopting families, the tax benefits provide an incentive to adopt a larger number of children with special needs in cases in which their adoption expenses would not be fully paid by direct expenditure programs. Conversely, the tax provisions lower the costs for adoptions of foreign children by a greater amount than for the adoptions of children with special needs. This increase in the relative price of adopting children with special needs compared to foreign children decreases the relative incentive to adopt children with special needs. Although the number of adoptions of children with special needs continues to increase, that increase may be related to private and other government efforts. We do not have the necessary data to determine whether the adoption tax benefits have increased, decreased, or not affected the number of adoptions of children with special needs relative to the number of such adoptions that would have occurred in the absence of the tax benefits.

Effect of tax benefits on qualified adoption expenses. Because the adoption tax credit is 100 percent of qualified expenses (up to the statutory limits), adopting families whose total qualified adoption expenses are below the statutory limits and who can fully utilize the tax credit do not have a financial incentive to minimize expenses. Even if the credit or employer reimbursement were less than 100 percent, the availability of tax benefits for adoption might permit some charges to adopting families to be increased over the levels charged in the absence of such tax benefits. To the extent that occurs, not all of the benefits from the tax provisions for adoption accrue to adopting families.

Administrative burdens for adopting families. Although obtaining benefits for adoption through the tax system may impose less administrative burden on taxpayers than would a direct expenditure program, the tax provisions are complex and do impose burdens on taxpayers. The tax form for claiming adoption benefits is one of the more complicated tax forms that lower- and middle-income taxpayers use, even though the requirements for the tax form are directly related to the statutory elements of the provisions and include the minimum information necessary to compute the benefits and alert IRS that benefits are being claimed. Virtually all taxpayers claiming adoption benefits in 1997 and 1998 used paid tax return preparers. Taxpayers incur additional computational burdens if, in order to pay adoption expenses, they wish to obtain the tax benefits immediately through reduced withholding on wages and salaries.

Administrative burdens for the Internal Revenue Service. It is labor intensive for the Internal Revenue Service to verify the adoption expenses claimed on tax returns as the basis for the adoption tax credit. Widespread examination of such expenses would require IRS to shift some of its limited resources from other enforcement activities. Widespread IRS examinations of tax returns reporting adoption expense would add to the administrative burdens of adoptive families.

OUTLINE OF THE STUDY

Chapter II provides detailed information on the Federal income tax provisions for adoption assistance. Chapter III provides background information on adoption. Chapter IV

presents and summarizes data on taxpayers' use of the Federal income tax benefits for adoptions in 1997 and 1998. Chapter V contains observations about the tax benefits for adoption with emphasis on their structure, their beneficiaries, their complexity, and various administrative issues. Appendix A includes a copy of the IRS tax form (Form 8839) and instructions that are used by taxpayers claiming the adoption tax benefits. Appendix B outlines the various Federal expenditure programs that facilitate and assist adoptions.

Chapter II

FEDERAL TAX BENEFITS FOR ADOPTION

Three major changes in tax benefits for adoption have been enacted since 1981. The Economic Recovery Tax Act of 1981 (ERTA) provided, beginning for 1981, an itemized deduction for up to \$1,500 per adoptee for qualified adoption expenses incurred in the adoption of a child with special needs. That deduction was repealed, effective in 1987, by the Tax Reform Act of 1986, which replaced the income tax benefit with a direct expenditure program to continue Federal support for families adopting children with special needs. In 1996, a tax credit and an exclusion for employer-paid benefits were enacted in the Small Business Job Protection Act of 1996, effective beginning in tax year 1997. The credit and the exclusion both provide benefits for adoption of children with special needs and other children.

The first section of this chapter reviews the history of the changes in the tax provisions for adoption since 1981. The second section explains the current provisions.

HISTORY

Economic Recovery Tax Act of 1981

The Economic Recovery Tax Act of 1981 (ERTA) added an itemized deduction for qualified adoption expenses paid by an adopting parent in connection with the adoption of a “child with special needs”.¹ The deduction was “intended to encourage, and reduce the financial burdens in connection with, the adoption of children who have special needs.”²

The aggregate amount that could be deducted with respect to the adoption of one child was limited to \$1,500. For purposes of the deduction, qualified adoption expenses were defined as reasonable and necessary adoption fees, court costs, attorney’s fees, and other expenses which are directly related to the legal adoption of a child with special needs. A “child with special needs” was defined as a child with respect to whom adoption assistance payments were made under section 473 of the Social Security Act.³ In general, a child with special needs is one who: (1) the state has determined, cannot or should not be returned to the home of the natural parents; and (2) unless adoption assistance is provided, cannot reasonably be expected to be adopted because of a specific factor or condition (such as ethnic background, age, membership in a

¹ Section 125 of ERTA. Section 222 of the Internal Revenue Code of 1954.

² U.S. Congress, Joint Committee on Taxation, *General Explanation of the Economic Recovery Tax Act of 1981*. P. 57.

³ Adoption assistance under the Social Security Act provided ongoing maintenance payments but did not reimburse adoption expenses.

minority group, being part of a group of siblings awaiting adoption together, medical condition, or physical, mental, or emotional handicap).⁴

Tax Reform Act of 1986

In his State of the Union address in January 1984, President Reagan directed the Treasury Department to undertake a study of the entire tax system with a view to making reforms to promote fairness, simplicity, and incentives for growth. The November 1984 Treasury report to the President recommended that the deduction for qualified adoption expenses of a child with special needs be repealed and that a direct expenditure program be enacted in its place.⁵ The same recommendations were included in President Reagan's subsequent report to the Congress in May 1985.⁶

The Tax Reform Act of 1986 followed the recommendations of the Administration regarding adoptions of children with special needs. The itemized deduction for expenses incurred in such adoptions was repealed, effective after tax year 1986.⁷ The Act also amended the adoption assistance program in Title IV-E of the Social Security Act to provide matching funds for adoption expenses of any child with special needs who has been placed for adoption in accordance with applicable State and local law.⁸ Generally, States were required to reimburse families for eligible costs, and the Federal matching share was 50 percent up to a maximum Federal share of \$1,000.

CURRENT LAW

Current law includes two separate, but related, Federal income tax benefits for adoption: a 100 percent tax credit for qualified adoption expenses paid by the taxpayer; and an exclusion from income subject to tax for employer-paid or employer-reimbursed adoption expenses. Both programs provide tax benefits for adoptions of children with special needs and adoptions of other children, but adoptions of a spouse's child (i.e., stepchild adoptions) are not eligible. Benefits are limited to the first \$5,000 of qualified adoption expenses paid by the taxpayer for each adoption and the first \$5,000 of employer payments or reimbursements, whether in one year or over several years, except that the limit is increased to \$6,000 for each adoption of a child with special needs. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenditures. Tax benefits are not available for any expenses paid or reimbursed under any government or non-government program. Under both programs, benefits are phased out for higher-income taxpayers.

⁴ A refusal of adoption assistance payments by an individual to whom such payments were available did not preclude the tax deduction.

⁵ U.S. Department of the Treasury, *Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President. Volume 2, General Explanation of the Treasury Department Proposals*. November 1984. P. 120.

⁶ *The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity*. May, 1985. P. 109.

⁷ Section 135 of the Act repealed section 222 of the Internal Revenue Code.

⁸ Section 1711 of the Act.

Both of the current tax benefits expire at the end of 2001, except that the tax credit for adoption expenses associated with adoptions of children with special needs is permanent.

Both provisions were enacted in the Small Business Job Protection Act of 1996 and became effective for expenses paid on or after January 1, 1997. The provisions were intended to address the fact that financial costs may be a barrier to adoption. The legislation also was intended to further encourage the adoption of children with special needs.

The remainder of this chapter provides greater detail about the tax credit and employer exclusion.

Tax Credit

A taxpayer may be entitled to a tax credit of 100 percent of the first \$5,000 (or \$6,000 for adoption of a child with special needs) of qualified adoption expenses paid in connection with an adoption.⁹ Qualified expenses do not include employer reimbursements which are taxable because they exceed the separate per adoption limit dollar limits for the employer exclusion or which are fully taxable because they are not received under a non-discriminatory plan. Any other expenses which are paid or reimbursed under other government programs also are not qualified expenses. Taxpayers may take the credit for expenses in more than one year, so long as the total does not exceed the appropriate limit per adoption. The amount of the tax credit otherwise allowable is phased out ratably over a \$40,000 modified adjusted gross income range, beginning at \$75,000 and ending at \$115,000.¹⁰ Unused tax credits may be carried forward and used during the five subsequent years.

Exclusion for Employer-Paid or Employer-Reimbursed Benefits

Employer payments or reimbursements for qualified adoption expenses are excludable from the employee's income if the expenses are paid under a non-discriminatory employer plan.^{11,12} The amount of the excluded employer payments is limited to a cumulative amount of \$5,000 per adoption, except that the limit is \$6,000 in the case of an adoption of a child with special needs. Employer payments may be excluded in more than one year, but the total

⁹ The per adoption limit is cumulative for all years for the particular adoption and is the maximum amount that may be taken into account in connection with the taxpayer's effort to adopt an eligible child, including qualified expenses paid in any unsuccessful attempt to adopt an eligible child before successfully finalizing the adoption of another eligible child.

¹⁰ The phaseout range is the same for married taxpayers filing joint returns, for single taxpayers, and for unmarried heads of household.

¹¹ Employer benefits which are excludable for income tax purposes are still subject to social security and Medicare taxes.

¹² Employer paid or reimbursed benefits include those paid under salary reduction plans which do not represent an additional payment by the employer.

exclusion for a single adoption may not exceed \$5,000 (or \$6,000).¹³ The exclusion is phased out generally over the same income range as the adoption tax credit except that for purposes of determining the phaseout of the employer exclusion (but not for the tax credit), modified adjusted gross income includes all employer payments or reimbursements for adoption expenses, whether or not they are taxable to the employee.

Common Provisions of the Tax Credit and Employer Exclusion¹⁴

Eligible Children. An eligible child is an individual who has not attained age 18 or who is physically or mentally incapable of caring for himself or herself. An eligible child may not be the child of the taxpayer's spouse.

Qualified Expenses. Qualified adoption expenses are reasonable and necessary adoption fees, court costs, attorneys' fees, and other expenses that are directly related to, and the principal purpose of which is for, the legal adoption of an eligible child. All reasonable and necessary expenses required by a State as a condition of adoption are qualified adoption expenses. For example, expenses may include the cost of construction, renovations, alterations or purchases specifically required by the State to meet the needs of the child. Eligible expenses do not include expenses (1) for which a deduction or credit is allowed under any other provision of the Internal Revenue Code, (2) to the extent the funds for the expenses are received under any Federal, State, or local program, (3) in violation of State or Federal law, (4) in carrying out any surrogate parenting arrangement, (5) in connection with the adoption of a child of the taxpayer's spouse, or (6) that are reimbursed under an employer adoption assistance program (for purposes of the tax credit) or other payment or reimbursement program. In addition, expenses paid or reimbursements received prior to January 1, 1997 are not eligible for the exclusion for employer benefits or the tax credit. The denial of a double benefit for the same expenditure does not prevent the taxpayer from obtaining benefits under different tax or expenditure programs for different qualified adoption expenses.

Adoption of a Child with Special Needs. The higher expense limits in connection with the adoption of a child with special needs are available only when a State has made a determination that the adoptee is a child with special needs. The higher \$6,000 expense limit for a child with special needs is not applicable for adoptions of foreign children with special needs. For purposes of eligibility for the \$6,000 expense limit, a child with special needs is a child who the State has determined: (1) cannot or should not be returned to the home of the birth parents, and (2) has a specific factor or condition because of which it is reasonable to conclude that the child cannot be placed with adoptive parents without adoption assistance. Examples of such factors or conditions are the child's ethnic background, age, membership in a minority group, being one of a group of siblings who need to be adopted together, medical condition, or physical, mental, or emotional handicap.

¹³ Excess employer adoption payments and all employer adoption payments made under plans which are not non-discriminatory are not eligible for the exclusion of employer-paid or employer-reimbursed benefits, nor are they qualified expenses for purposes of the tax credit.

¹⁴ See Notice 97-9, 1997-2 I.R.B. 35.

Income Limits and Phaseouts. For purposes of calculating the income phaseout for the tax credit and the employer exclusion, modified AGI is computed by increasing the taxpayer's AGI by the amount otherwise excluded from gross income under Internal Revenue Code sections 911, 931, or 933 (relating to the exclusion of income of U.S. citizens or residents living abroad; residents of Guam, American Samoa, and the Northern Mariana Islands, and residents of Puerto Rico, respectively). In addition, for purposes of the exclusion for employer adoption benefits, modified AGI is determined without applying the exclusion for such benefits.

Timing of Tax Benefits. The year in which a taxpayer's qualified adoption expenses are considered for the tax credit and the year in which employer payments or employer reimbursements are excluded from the employee's income depends on the year in which the adoption becomes finalized and whether the expenses are for the adoption of a domestic or a foreign child.

Adoption of a domestic child. A domestic child is one who is a citizen or resident of the United States at the time the adoption is commenced. The credit for qualified adoption expenses paid or incurred (including such amounts paid or incurred in an unsuccessful effort to adopt such a child) is generally allowed in the next taxable year. However, the credit for expenses paid or incurred in or after the taxable year an adoption becomes final is allowed in the year that they are paid or incurred. Employer payments or reimbursements are excluded from the employee's income in the year in which the payments or reimbursements are made.

Adoption of a foreign child. A special rule applies in the case of the adoption of an eligible child who is not a citizen or resident of the United States at the time the adoption commenced. Both the taxpayer's own expenditures and employer payments or reimbursements are not considered for tax benefits until the year in which the adoption becomes final. Qualified adoption expenses paid or incurred in any previous year are treated as having been paid or incurred in the taxable year in which the adoption becomes final. Employer payments or reimbursements made in a prior year are taxable income to the employee in the year in which made, but then are deducted from the employee's income in the year in which the adoption becomes final. For expenses paid or incurred after the taxable year an adoption becomes final, a tax credit or exclusion from income is allowed in the year in which the payments or reimbursements are made.

Expiration of Adoption Tax Benefits. The adoption tax credit for expenses incurred in the adoption of a child with special needs is permanent part. The adoption tax credit with respect to the adoption of children other than children with special needs and the exclusion for employer-paid or employer-reimbursed adoption expenses expire at the end of tax year 2001.

Chapter III

BACKGROUND ON ADOPTION

DATA ON THE NUMBER OF ADOPTIONS

Primary data on adoptions come from State court systems, bureaus of vital statistics, and social service agencies. Although there have been sporadic efforts to collect data over the past fifty years, complete data currently are available only for adoptions of foreign children and children for whom a State welfare agency has responsibility. The most comprehensive effort to collect adoption statistics was conducted by Victor and Carol Flango of the National Center for State Courts who estimated there were a total of 127,000 children adopted in 1992.¹ Their estimate, however, is slightly understated because it does not include foreign adoptions in States that do not use the State courts to report adoptions.

Adoptions of foreign children. Data on the number of adoptions of foreign children are available from the Immigration and Naturalization Service and the State Department. Adoptions of foreign children have been increasing, even prior to the enactment of tax benefits for adoption. There were 6,500 adoptions of foreign children in 1992, 9,700 in 1995, 15,800 in 1998, and 16,400 in 1999 according to data reported by the National Adoption Information Clearing House².

Adoptions with public agency involvement. Since the passage of the Adoption and Safe Families Act of 1997, States have been required to report adoptions from foster care with public involvement. To implement the requirements of this act, the U.S. Department of Health and Human Services has set up the Adoption and Foster Care Analysis and Reporting System (AFCARS). Although the only involvement with a public agency of some of these children occurs during the process of determining that the child has special needs, the term "children adopted from the public foster care system" is used in the AFCARS reports. That term will be used here.

The number of children estimated to be adopted from the public foster care system has increased substantially in recent years, from 19,000 in 1992 to 26,000 in 1995 and to 36,000 in

¹ Flango, Victor and Flango, Carol, "How Many Children Were Adopted in 1992," *Child Welfare*, Vol. LXXIV #5, September/October 1995, pp. 1018-1031.

² National Adoption Information Clearinghouse web site, *National Adoptions Statistics*. Accessed February 2, 2000.

1998.³ Administrative factors including increased emphasis on moving children to permanent placement and recruitment of potential adoptive parents have played a role in these increases.⁴

Children with special needs. Most children adopted from the public foster care system are children with special needs. Children with special needs are those who because of age, race, disability, or other characteristics would be unlikely to find a permanent home without special assistance. Determinations of special needs status are made by State child welfare agencies based on their own State's standards. Federal and State matching funds are available to pay non-recurring costs directly related to the legal costs of adoption for all children with special needs (up to a maximum of \$2,000).⁵ Funds for on-going, post-adoption care are available for all children with special needs eligible for Federal assistance under Title IV-E (the majority of all children with special needs) and for children funded through State-only programs. Children in the public foster care system not determined to have special needs are not eligible for Federal funding for continuing support or for non-recurring adoption cost reimbursement.⁶ Thirty-one thousand of the 36,000 children adopted with public agency involvement in fiscal 1998 received a continuing special needs adoption subsidy.⁷ There may have been a few additional children who received reimbursements for only non-recurring adoption costs and are not included in the 31,000. Therefore, 31,000 represents the minimum number of children adopted in fiscal year 1998 who were determined to have special needs.

A description of Federal expenditure programs for adoptions is included in Appendix B at the end of this report.

Stepparent adoptions. Adoptions by stepparents accounted for an estimated 42 percent, or 53,000, of 1992 adoptions.⁸ Adoptions by stepparents are not eligible for the Federal adoption tax credit or employer exclusion.

Adoptions eligible for the tax credit or exclusion of employer reimbursement. Using the estimate of 130,000 adoptions described in Chapter I and subtracting the estimated 53,000 stepparent adoptions implies that approximately 77,000 adoptions would be eligible for a tax credit or exclusion. However, some adoptions would not be eligible because the income level of

³ Penelope L. Maza, "Recent Data on the Number of Adoptions of Foster Children," *Adoption Quarterly*, Vol. 3(2) 1999, pp. 71-81. Estimates for 1992 and 1995 are the "FY 1995 Adoption Incentive Program Baselines," on p.76. The 1998 total was reported in the U.S. Department of Health and Human Services, *The AFCARS Report, Interim Estimates for Fiscal Year 1998—April 2000 (3)*. Improvements in reporting make precise comparisons over time uncertain.

⁴ National Adoption Information Clearinghouse citing *Adoptalk*, Winter 1999 (publication of the North American Council on Adoptable Children).

⁵ States may set a lower limit on reimbursable non-recurring expenses.

⁶ A description of Title IV-E is included in Appendix B, Federal Expenditure Programs for Adoption.

⁷ *The AFCARS Report, Interim Estimates for Fiscal Year—April 2000 (3)*.

⁸ The estimated number of stepparent adoptions was computed by the author from the total number of adoptions and the percentage that are stepparent adoptions as reported for 1992 by Flango and Flango, p. 1018

the adoptive parents is above the maximum for the credit or exclusion. Further, for many adoptions of children with special needs, adoptive parents appear not to have any unreimbursed qualified expenses.

FAMILIES SEEKING TO ADOPT A CHILD

At least since the mid-1950s, the number of parents seeking to adopt healthy domestic infants has exceeded the number of healthy infants available for adoptions, as evidenced by long waiting lists.⁹ According to data reported in the 1988 and the 1995 National Surveys of Family Growth (NSFG), the number of ever-married women age 18-44 seeking to adopt who have also taken steps to adopt has remained roughly constant in recent years: 204,000 in 1988; and 232,000 in 1995 (the difference is not statistically significant).¹⁰ Because success in the adoption of healthy domestic infants is relatively low, there may be additional, discouraged families who would take steps to adopt if the chances of success seemed higher or the financial and other costs were lower.¹¹ Total demand is further understated since the NSFGs have not surveyed men or never married women regarding the desire for adoption.

Data from the NSFGs indicate that ever-married women seeking to adopt prefer children of their own race, female gender, under age two, and without disabilities.¹² According to the *Adoption Factbook III*, 23,500 children under age two were adopted in 1996.¹³ The number of adoptions of children under age one is not available from this source.

While preferring infants, the majority of women (in the NSFG) currently seeking to adopt express a willingness to accept older children and children of a different gender, race, or with a disability. Among children adopted from the public foster care system, 53 percent were six or older.¹⁴

CHILDREN AVAILABLE FOR ADOPTION

Relinquishment of children at birth. Historically, children of young unwed mothers were the most important source of adoptive infant children for U.S. adoptive parents. In a 1982

⁹ *The Future of Children*, Published by the Center for the Future of Children, The David and Lucille Packard Foundation, Spring 1993, p. 23.

¹⁰ A. Chandra et al, Center for Disease Control and Prevention, *Advance Data No. 306*, *Adoption, Adoption Seeking, and Relinquishment for Adoption in the United States*, May 11, 1999, p. 7.

¹¹ It is not possible to estimate success in adoption for all persons seeking adoption from the published data in the *Advance Data* report cited above. In the 1988 and 1995 NSFG, 31 percent of the women who had ever "sought to adopt" or "took steps to adopt" reported actually adopting a child, *Advance Data No. 306*, p. 10. This estimate of adoption success includes only success for ever-married women. Furthermore, since it includes women who sought to adopt stepchildren and other related children, the estimate may not be entirely representative of the success ratio of ever-married women who have sought to adopt unrelated children.

¹² Op.cit., p. 8.

¹³ National Council for Adoption, *Adoption Factbook III*, 1999.

¹⁴ *The AFCARS Report, Interim Estimates for Fiscal Year—April 2000 (3)*.

survey, 88 percent of infants placed for adoption were born to never-married mothers, 6 percent of placements were by previously married women, and the remaining 6 percent were by currently married women.¹⁵

Based on data reported in various NSFGs, Anjani Chandra *et al* have estimated that the percentage of children of never married white mothers relinquished for adoption dropped from 19.3 percent in the 1950s to 7.5 percent in 1973 and to 1.7 percent in the 1989-95 period.¹⁶ Although the number of never married white women giving birth has increased from 175,000 in 1970¹⁷ to 825,000 in 1998,¹⁸ the decline in relinquishment rates sharply reduced the potential number of infants available for adoption. Relinquishment rates among never-married black mothers have apparently been low for decades; it was under 2 percent before 1973.¹⁹

Children available in the Public Foster Care System. A major source of adoptive children currently is the foster care system. According to AFCARS, 547,000 children were in foster care on March 31, 1999. Of these, 117,000 were waiting to be adopted. Children waiting to be adopted are defined in the AFCARS system as children whose goal is adoption and/or children of parents whose parental rights have been terminated.²⁰

The number of waiting children who would qualify as children with special needs is unknown. Most likely many of the waiting children in foster care would qualify as children with special needs. For example, 54 percent of the waiting children on March 31, 1998, had been in continuous foster care for three years or more.²¹

Foreign children: Several additional sources of children available for adoption have arisen since the mid-1950s. Children orphaned in the Korean War began to be adopted by families in the United States beginning in the 1950s. Latin America, China, and the countries of the former Soviet Union have been important countries of origin at one time or another in the 1990s.²² The number of these children available for adoption by U.S. families and, to a certain extent, the cost of the adoptions, is determined by the conditions and policies in the countries of origin.

¹⁵ Packard, p. 34.

¹⁶ A. Chandra et al, Center for Disease Control and Prevention, *Advance Data No. 306, Adoption, Adoption Seeking, and Relinquishment for Adoption in the United States*, May 11, 1999, p. 9.

¹⁷ United States Department of Commerce, *1995 Statistical Abstract*, p. 77.

¹⁸ United States National Center for Health Statistics, *National Vital Statistics Report*, Vol.48, No.3 March 28, 2000, p. 44.

¹⁹ Op.cit., p. 9.

²⁰ United States Department of Health and Human Services, Children's Bureau web site accessed July 25, 2000. Children age 16 and over whose goal is emancipation are excluded from the 117,000 available children.

²¹ U.S. Department of Health and Human Services, *The AFCARS Report, Interim estimates for Fiscal Year 1998—April 2000 (3)*, p. 4.

²² *Adoption Factbook III*, pp. 44-45.

COSTS OF ADOPTION

Out-of-pocket costs of adoption vary widely. According to estimates provided by the National Adoption Clearing House (Clearing House) at its web site, costs for a domestic public agency adoption, including travel costs, range from zero to \$2,500.²³ The Clearing House reports that children placed by public agencies usually have been determined by the State to have special needs, and adoption expenses up to a set limit (not to exceed \$2,000) for these children are eligible for reimbursement. Hence, unreimbursed adoption expenses for these children often are very low. That may account for the fact that only about 4,600 adoptions of children with special needs claimed tax benefits for 1998.²⁴

The Clearing House reports that domestic private agency expenses range from \$4,000 to \$30,000 and more, and that some agencies provide sliding fees based on family income. Expenses for independent (without an agency) domestic adoptions are reported to range from \$8,000 to \$30,000 and more. One reason the cost of independent adoption might be higher in some cases than the cost for adoption through a private agency is that the cost of advertising for birth parents in the case of independent adoptions can be as much as \$5,000 according to the Clearing House report. Expenses for domestic private and independent adoptions can include substantial medical and living expenses and legal costs. Expenses for adoptions of foreign children are reported to range from \$7,000 to \$25,000.

The Clearing House report also provides ranges of costs for specific types of expenses but does not include estimates of average cost or other cost information that would provide a basis for determining the number of adoptions that exceed the limits for adoption tax benefits. For adoptions at the lower end of the cost ranges for non-special needs adoptions, the tax benefits will substantially reduce the after-tax cost of adoption. In the relatively few cases where the adoption costs of children with special needs exceed reimbursements through Federal and State programs, the adoption credit usually seems sufficient to cover remaining qualified expenses.

²³ No reference year or data source for the cost data cited above is provided by the National Adoption Information Clearing House web site, accessed June 6 2000.

²⁴ Taxpayers adopting children with special needs and having unreimbursed expenses below \$5,000 do not have a financial incentive to check the special needs box, and some may not. In other cases, the special needs box may have been checked incorrectly. For example, each year on Form 8839 about 300 taxpayers report adoptions as being both special needs and foreign despite instructions on the tax form explaining that a child with special needs must be a citizen or resident of the United States or its possessions at the time the adoption process began.

Chapter IV

USE OF ADOPTION TAX BENEFITS FOR 1997 AND 1998

NOTE TO READER: It has become apparent that there are some errors or inconsistencies in the two tables of linked data (Tables C-1 and C-2). As soon as they have been checked and the tables rerun, the appropriate changes will be made in the text and tables.

This chapter presents data from tax returns about the utilization of the two Federal income tax benefits for adoption in the first two years that they were available to taxpayers, 1997 and 1998. The data are classified by income and marital status and are shown separately for adoptions of children with special needs and foreign children.

The first section of this chapter presents highlights about the use of the tax benefits at various income levels. The second section describes the detailed tables that appear at the end of the chapter and explains the concepts used in the tables and the limitations of the data. The primary limitation is that tax information generally is presented as it was reported by taxpayers on their tax returns. There are separate detailed tables for 1997, for 1998, and for adoptions for which tax benefits were reported in both 1997 and 1998.

HIGHLIGHTS OF FEDERAL INCOME TAX BENEFITS FOR ADOPTION, 1997 AND 1998

The basic facts about aggregate use of adoption tax benefits in 1998 were presented in Chapter I. For the convenience of the reader, summary information on 1997 and 1998 is consolidated in Table 4-1. Summary data are presented for the two tax benefits combined and separately, for all adoptions as well as separately for adoptions of domestic non-special needs children, children with special needs, and foreign children. The statistics in Table 4-1 have been calculated from the detailed tables included at the end of the chapter.

Generally the patterns of adoptions by type, income class and expense and tax benefits earned are similar in 1997 and 1998 but the number of returns, the number of adoptions and the amounts of tax benefits are larger in 1998 due in part to the fact that returns for 1997 include only adoptions finalized in 1997 for which expenses were paid in 1997. 1998 returns include adoptions finalized in 1997 for which expenses were paid in 1998, adoptions finalized in 1998 for which expenses were paid in 1997 or 1998, and 1997 expenses of domestic adoption which were still in process at the end of 1998. In 1997, 36,453 taxpayers reported a tax benefit from the tax credit or employer exclusion. In 1998, the comparable figure is 43,363.¹

¹ As discussed below some 1998 returns include only carryover of 1997 credit.

Table 4 - 1
Summary of the Use of Tax Benefits for Adoptions, 1997 and 1998

	All Adoptions			Children with Special Needs (domestic)			Foreign Children			Non-Foreign, Non-Special Needs Children		
	1997	1998	Change (%)	1997	1998	Change (%)	1997	1998	Change (%)	1997	1998	Change (%)
<u>Tax Credit and Employer Exclusion Combined¹</u>												
Number of Returns	36,453	43,363	19.0	3,169	3,816	20.4	10,375	11,990	15.6	22,909	27,557	20.3
Number of Adoptions	40,523	48,174	18.9	3,866	4,601	19.0	11,561	13,443	16.3	25,096	30,130	20.1
Average Qualified Expenses Per Return	6,208	6,674	7.5	3,872	4,296	11.0	10,894	11,492	5.5	4,409	4,907	11.3
Average Qualified Expenses Per Adoption	5,584	6,007	7.6	3,174	3,563	12.3	9,776	10,249	4.8	4,025	4,488	11.5
Percentage of Returns with Expenses Under \$5,000	54	50		71	66		24	19		66	61	
Percentage of Returns with Expenses Under \$6,000	64	63		76	71		35	34		76	74	
Percentage of Returns with Expenses Over \$10,000	23	26		10	12		51	55		12	15	
Combined Tax Benefits in Year (\$ in millions)	70.0	97.9	39.9	4.8	6.9	43.8	24.6	36.4	48.0	40.6	54.6	34.5
<u>Tax Credit for Adoption</u>												
Number of Returns	36,157	42,613	17.9	3,146	3,748	19.1	10,326	11,791	14.2	22,685	27,074	19.3
Number of Adoptions	40,197	47,332	17.8	3,836	4,521	17.9	11,517	13,207	14.7	24,844	29,604	19.2
Average Qualified Expenses Per Return	6,050	6,568	8.6	3,672	4,138	12.7	10,757	11,462	6.5	4,238	4,773	12.6
Average Qualified Expenses Per Adoption	5,442	5,913	8.7	3,011	3,431	13.9	9,644	10,235	6.1	3,870	4,365	12.8
Percentage of Adoptions with Expenses Under \$5,000	58	53		77	71		26	21		69	64	
Percentage of Adoptions with Expenses Under \$6,000	68	67		81	78		38	39		80	78	
Percentage of Adoptions with Expenses Over \$10,000	19	22		6	8		45	49		10	12	
Tax Credit for In-Year Expenses (\$ in millions)	98.6	129.2	31.0	7.4	10.3	39.2	37.9	48.0	26.6	53.3	70.9	33.0
Tax Credit Taken in Year (\$ in millions) ²	68.7	96.2	40.0	4.6	6.8	47.8	24.2	35.9	48.3	39.8	53.5	34.4
<u>Employer Adoption Benefits¹</u>												
Number of Returns	2,940	3,848	30.9	290	370	27.6	784	1,042	32.9	1,976	2,436	23.3
Number of Adoptions	3,269	4,261	30.3	348	429	23.3	883	1,172	32.7	2,153	2,660	23.5
Average Total Reimbursements Per Return	2,704	2,784	2.9	2,459	2,462	0.1	3,010	3,203	6.4	2,468	2,653	7.5
Average Total Reimbursements Per Adoption	2,432	2,514	3.4	2,049	2,124	3.6	2,673	2,848	6.6	2,265	2,430	7.3
Percentage of Returns with Reimbursements Under \$5,000	87	85		90	89		82	78		89	87	
Percentage of Returns with Reimbursements Under \$6,000 ³	95	95		95	95		93	93		96	96	
Tax Benefits for Employer Adoption Benefits (\$ in millions)	1.3	1.7	30.8	0.1	0.1	0.0	0.4	0.5	25.0	0.8	1.1	37.5
<u>Taxpayers Using Both Benefits</u>												
Number of Returns	2,644	3,098	17.2	267	302	13.1	720	843	17.1	1,657	1,953	17.9
Number of Adoptions	2,943	3,419	16.2	318	349	9.7	812	936	15.3	1,813	2,134	17.7
Average Qualified Expenses Per Return	8,454	9,651	14.2	5,670	6,589	16.2	14,485	16,272	12.3	6,282	7,266	15.7
Average Qualified Expenses Per Adoption	7,595	8,745	15.1	4,761	5,702	19.8	12,844	14,655	14.1	5,741	6,650	15.8
Percentage of Returns with Expenses Under \$5,000	43	38		60	54		14	9		53	49	
Percentage of Returns with Expenses Under \$6,000	50	45		67	60		17	11		62	57	
Percentage of Returns with Expenses Over \$10,000	32	37		13	22		69	76		18	23	
Combined Tax Benefits in Year (\$ in millions)	6.4	8.5	32.8	0.5	0.6	20.0	2.3	3.3	43.5	3.7	4.6	24.3

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¹ Does not include returns with only taxable employer benefits.

² For 1998, the amount shown does not include the tax credit for those returns with only 1997 carry forwards. Including these carry forwards leads to amounts of 104.2, 7.3, 39.0, and 58.0 for All Adoptions, Children with Special Needs, Foreign Children, and Non-Foreign, Non-Special Needs Children, respectively. See the "Credit Taken in 1998" column in Table 98-3.

³ The percentage of returns with employer reimbursement of \$10,000 or more has not been calculated.

Adoption Expenses and Benefits by Income

As noted in Chapter III, non-tax data show a wide variation in adoption expenses between and within adoption types. The tax return data also show considerable variation in adoption expenses between and within adoption types. Furthermore, the tax data show that average adoption expenses consistently rise with income, although there is considerable diversity in adoption expenses within each income class. These relationships can be illustrated by the tax credit for 1997.

As shown in Table 4-2, the average qualified expense per adoption for returns claiming an adoption tax credit in 1997 rises with income for all types of adoptions, although the relative change is largest for adoptions of domestic non-special needs children. For that type of adoption, the average reported expense for the \$100,000 and over income class is over two and one-half times as large as for the under \$25,000 income class (\$6,424 versus \$2,479). For adoptions of children with special needs, both the percentage and dollar variations are lower, \$4,931 versus \$2,234, or a 120 percent difference. For adoptions of foreign children, the overall level of expenses is much higher, but there is less variation in average expense. There is only a 27 percent difference between the lowest and the highest income classes.

Within each income class, adoption type group, there is considerable variation in reported expenses. For example, although 31 percent of taxpayers with adjusted gross incomes between \$50,000 and \$75,000 reported expenses under \$1,000 for the adoption of a domestic non-special needs child, another 23 percent had expenses of more than \$6,000, including 5 percent whose spending exceeded \$10,000 (see Table 4-3). Although average expenses rise with income for adoptions of foreign children, reported expenses were typically over \$5,000 at all income levels.

The combination of increasing average qualified expenses and the phaseout of tax benefits as income increases means that the average tax benefit from the adoption tax credit increases and then decreases with income. Tables 4-2 shows, for example, that for domestic non-special needs adoptions the average tax credit is \$1,632 per adoption for taxpayers with AGIs below \$25,000, \$2,600 for taxpayers with AGIs between \$50,000 and \$75,000, and \$755 for taxpayers with AGIs of \$100,000 and over.

The credit that can be used is limited to tax liability, although unused credit can be carried forward. The last column of Table 4-2 shows the percentage of the tax credit generated that each group was able to use to offset 1997 tax liability. The remainder of the credit was carried forward for use against tax liability in tax years 1998 through 2002. The percentage of the tax credit that could be used in 1997 varied much more by income level than by the type of adoption. On average, despite their lower average adoption expenses and credits generated by those expenses, adopting families with incomes under \$25,000 were able to use only a small of their tax credits in 1997 portion (13 percent to 23 percent, depending on the type of adoption).

Table 4 - 2

**Adoption Tax Credit, 1997:
Average Expenses, Tax Credit, and Carryforward Per Adoption**

	Number of Adoptions	Average Qualified Expenses (\$)	Average Tax Benefits (\$) Per Adoption			Benefits Used in 1997 (%)
			Total	Used in 1997	Carried Forward	
<u>Domestic Non-Special Needs Adoptions</u>						
Total	24,866	\$3,874	\$2,145	\$1,602	\$543	74.7%
By Adjusted Gross Income						
Under \$25,000	2,498	2,479	1,632	380	1,252	23.3%
\$ 25,000 - \$ 49,999	8,682	2,853	2,007	1,473	535	73.4%
\$ 50,000 - \$ 74,999	8,338	4,174	2,600	2,122	478	81.6%
\$ 75,000 - \$ 99,999	4,130	5,505	2,236	1,851	385	82.8%
\$100,000 and over	1,218	6,424	755	633	122	83.9%
By Filing Status						
Married Filing Jointly	22,675	3,944	2,163	1,640	523	75.8%
Other	2,191	3,147	1,959	1,213	746	61.9%
<u>Children with Special Needs (domestic)</u>						
Total	3,836	3,011	1,926	1,209	717	62.8%
By Adjusted Gross Income						
Under \$25,000	465	2,234	1,578	308	1,271	19.5%
\$ 25,000 - \$ 49,999	1,522	2,530	1,830	1,149	681	62.8%
\$ 50,000 - \$ 74,999	1,225	3,389	2,294	1,631	663	71.1%
\$ 75,000 - \$ 99,999	508	3,815	1,898	1,339	559	70.5%
\$100,000 and over	116	4,931	819	595	216	72.6%
By Filing Status						
Married Filing Jointly	3,310	3,064	1,930	1,240	690	64.2%
Other	526	2,679	1,901	1,019	882	53.6%
<u>Foreign Children¹</u>						
Total	11,495	9,646	3,292	2,106	1,186	64.0%
By Adjusted Gross Income						
Under \$25,000	519	8,547	3,603	457	3,146	12.7%
\$ 25,000 - \$ 49,999	2,896	8,513	3,635	2,137	1,498	58.8%
\$ 50,000 - \$ 74,999	4,268	9,575	3,793	2,556	1,237	67.4%
\$ 75,000 - \$ 99,999	2,857	10,700	2,916	2,144	772	73.5%
\$100,000 and over	955	10,849	968	788	179	81.5%
By Filing Status						
Married Filing Jointly	9,706	9,645	3,215	2,120	1,095	65.9%
Other	1,789	9,653	3,712	2,035	1,677	54.8%

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Footnotes follow Table C-2.

Table 4 - 3

Adoption Tax Credit, 1997:
Percentage of Adoptions with Selected Levels of Qualified Adoption Expenses

	Number Of Adoptions	Percentage of Returns with Expenses Per Adoption			
		Less Than \$1,000	\$5,000 And Over	\$6,000 And Over	\$10,000 And Over
<u>Domestic Non-Special Needs Adoptions</u>					
Total	24,866	34.5%	30.6%	20.0%	4.3%
By Adjusted Gross Income					
Under \$25,000	2,498	47.5	19.3	9.1	1.6
\$ 25,000 - \$ 49,999	8,682	41.5	21.0	12.3	1.9
\$ 50,000 - \$ 74,999	8,338	30.6	34.1	22.7	4.5
\$ 75,000 - \$ 99,999	4,130	23.7	44.7	31.9	8.4
\$100,000 and over	1,215	21.0	50.0	37.2	11.5
By Filing Status					
Married Filing Jointly	22,675	34.4	31.4	20.6	4.4
Other	2,191	36.0	22.0	13.1	3.2
<u>Children with Special Needs (domestic)</u>					
Total	3,836	44.3	23.4	19.5	2.6
By Adjusted Gross Income					
Under \$25,000	465	51.8	18.1	13.5	1.5
\$ 25,000 - \$ 49,999	1,522	49.3	18.4	14.9	1.5
\$ 50,000 - \$ 74,999	1,225	39.9	26.6	22.8	3.1
\$ 75,000 - \$ 99,999	508	36.2	31.3	27.0	4.5
\$100,000 and over	116	29.3	41.4	36.2	6.9
By Filing Status					
Married Filing Jointly	3,310	44.5	23.8	20.0	2.7
Other	526	43.2	20.5	16.5	2.1
<u>Foreign Children¹</u>					
Total	11,495	14.1	74.2	61.6	24.0
By Adjusted Gross Income					
Under \$25,000	519	14.1	68.2	53.6	19.1
\$ 25,000 - \$ 49,999	2,896	16.4	68.5	55.2	19.2
\$ 50,000 - \$ 74,999	4,268	14.5	74.2	61.5	23.4
\$ 75,000 - \$ 99,999	2,857	11.9	79.2	67.8	29.0
\$100,000 and over	955	12.5	79.4	67.4	29.5
By Filing Status					
Married Filing Jointly	9,706	14.5	73.4	61.0	24.1
Other	1,789	12.0	78.5	64.7	23.8

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Footnotes follow Table C-2.

Families with moderate incomes and whose income was lower than usual income in 1997, perhaps because one or both spouses took time from work to attend to the details of adoption or to provide care for the newly adopted child, may be expected to have higher tax liability in future years which may be sufficient to permit the family to obtain most or all of the financial benefit of the tax credit during the five-year carryover period. However, lower- and moderate-income families that do not expect to have substantially greater tax liability in future years may not be able to fully utilize the benefits of their tax credits during the carryforward period. In both situations, the families do not have the immediate benefit from the tax credit to pay for the costs of the adoption as they are incurred. Even in the highest income class for which the adoption tax credit is available, not all of the adoption tax credits generated in 1997 could be used in 1997.² Depending on the type of adoption, only 73 percent to 84 percent of tax credits were used in 1997.

Adoptions by Type, Income, and Marital Status

The income levels of taxpayers reporting the different types of adoptions varied somewhat. For example, in 1997 only 30 percent of the taxpayers claiming a credit for adoptions of foreign children reported AGI of less than \$50,000, whereas for adoptions of domestic non-special needs children, the comparable figure is 45 percent (calculated from Table 4-2). About 8 percent of taxpayers reporting adoptions of foreign children had AGIs of \$100,000 or above versus 5 percent of taxpayers reporting domestic non-special needs adoptions.³

Taxpayers claiming the adoption credit have somewhat higher incomes than all families with young children. Among taxpayers filing joint returns with children under age 6 and adjusted gross incomes (AGIs) below \$115,000, 38 percent reported AGIs above \$50,000, and 12 percent had AGIs between \$75,000 and \$115,000.⁴ In contrast, 59 percent of taxpayers claiming an adoption credit had AGIs above \$50,000, and 25 percent had AGIs between \$75,000 and \$115,000.

Overall 89 percent of adopting taxpayers were married. Taxpayers reporting adoptions of children with special needs or adoptions of foreign children were more likely than other adoptive parents to be unmarried.

Use of Adoption Benefits in Two Successive Years

Because adoptions are initiated at various times during a calendar year and expenses may be incurred throughout the adoption process and even after an adoption has been finalized, the adoption expenses reported for a single calendar year may often understate the total qualified expenses of the adoption. In order to minimize the frequency with which taxpayers need to file

² Adoption tax benefits are not available to taxpayers with modified adjust gross incomes of \$115,000 or more.

³ Since the adoption tax credit is not available to taxpayers with modified AGIs over \$115,000, the number of adoptions by families with incomes above that level cannot be determined from tax data.

⁴ Computations by the Department of the Treasury, Office of Tax Analysis from unpublished data.

for the adoption tax credit in more than one year for any single adoption, expenses paid prior to the year the adoption becomes final are claimed in the following year (with the exception of expenses for adoptions of foreign children which can only be claimed in the year in which the adoption become final).

Data from tax returns in which tax benefits for adoption were claimed in both 1997 and 1998 should provide some indication of the frequency with which taxpayers must file claims in more than one year for a single adoption as well as providing additional information on the qualified expenses that are incurred over the entire adoption process.⁵ (Taxpayers who use only an adoption tax credit carried forward from the previous year (1997) are not considered as having used adoption benefits in both years.) Tables C-1 and C-2 contain data for taxpayers with reported adoption expenses in both years.

[Next two paragraphs to be rewritten when corrected linked data are available.]

Qualified expenses for adoptions were reported on both 1997 and 1998 tax returns by 7,181 taxpayers for a total of 8,132 adoptions. Thus, 20 percent of returns reporting an adoption expenditure in 1997 also reported an expenditure in 1998. Only 6 percent of returns reporting an employer exclusion for adoption in 1997 also reported an exclusion in 1998. Because taxpayers reporting adoption expenses in 1997 and who had adoption expenses over two years began the adoption process in 1996 and had 1996 expenses that were not eligible for the tax credit, the number of returns with expenses reported in both 1997 and 1998 may understate the total number of taxpayers with 1997 expenses and expenses in a second year.

For families with expenses reported in 1997 and 1998, average qualified expenses per adoption were \$11,727, or nearly twice the level for the average adoptee in 1998 alone. Although the percentage differences vary by type of adoption, the two-year total expenses are at least 50 percent higher for all categories. This difference reflects the fact the entire adoption process may extend over more than two calendar years so that a single year's tax reporting would not reflect all qualified adoption expenses.

DETAILED TAX RETURN DATA, 1997 AND 1998

This section describes the detailed tables that appear at the end of this chapter, and the sources and limitations of the data.

Tax Return Data for 1997

There are eight tables of detailed data from 1997 income tax returns. Tables 97-1 and 97-2 show combined information about the adoption tax credit and the exclusion for employer-paid

⁵ Since qualified adoption expenses (for purposes of the tax credit) in excess of \$5,000 (\$6,000 for adoption of a child with special needs) may not be reported because they do not increase the size of the adoption tax credit, a taxpayer whose qualified adoption expenses exceed \$5,000 (or \$6,000) in the first year may not report any additional expenses incurred in subsequent years. Thus, depending on the timing of the payments over the adoption process, even tax data for multiple years may not report all of the expenses of a particular adoption.

or -reimbursed adoption expenses. Qualified adoption expenses include all amounts reported for the credit (including those amounts in excess of the maximum credit) plus the total amount of employer reimbursements, both taxable and nontaxable. However, tax returns with employer reimbursements are not included if the entire reimbursement was taxable due to a full income related phaseout of the tax exclusion.

As in all of the detailed tables, the information is shown by type of adoption: for all adoptions; for adoptions of children with special needs; and for foreign adoptions. Any adoption which was reported by the taxpayer as being both "a foreign child" and "a child with special needs" has been included under the foreign child adoption category, since adoptions of foreign children are not eligible for the higher levels of maximum benefits available for adoptions of children with special needs. Information about adoptions of domestic non-special needs children is not presented separately, but can be obtained by subtraction.⁶ Within each type of adoption, data are presented by adjusted gross income class and by marital status.

Table 97-1 shows the number of adoptions for which tax benefits were reported, amount of qualified adoption expenses reported, and total adoption tax benefits used in 1997 or carried forward for use in later years. Table 97-2 categorizes the family's combined qualified adoption expenses reported for the tax credit and employer reimbursements by the size of the total reported expenses per return. The tax return records used for this analysis only provide the amount of employer reimbursements on a per return basis. Therefore, distributions of expenses combining the credit and the exclusion cannot be shown on a per adoption basis.

Tables 97-3 and 97-4 contain information about tax returns claiming the adoption tax credit. Table 97-3 shows the number of adoptions and the amounts of qualified adoption expenses and the amount of adoption tax credit generated by those adoption expenses. Qualified expenses are the amounts reported by taxpayers and are not limited to amounts for which the tax credit is available. Table 97-4 reports the distribution of qualified expenses per adoption by size of expenses.

Tables 97-5 and 97-6 present information about employer payments or reimbursements for employees' adoption costs. The tables do not include data for employer reimbursements if the entire reimbursement was taxable due to a full income related phaseout of the exclusion. Employee tax benefits have been estimated by multiplying the non-taxable employer benefits by the appropriate marginal tax rate or rates applicable to the employee's filing status and taxable income (as adjusted for excluded adoption benefits). Depending on the employee's taxable income, more than one tax rate might apply. For lower-income employees, the applicable tax rate for some or all of the excluded benefits might be zero. The tax effects of interactions from changes in the worker's taxable income with other tax provisions (such as "floors" on itemized

⁶ Information about adoptions of domestic non-special needs adoptions can be obtained by subtracting the entries under adoptions of special needs children and adoptions of foreign children from the comparable entry for all adoptions.

deductions) have not been included. Table 97-6 shows the distribution of qualified adoption reimbursements reported on each tax return by the size of benefits.⁷

Tables 97-7 and 97-8 are similar to Tables 97-1 and 97-2 but only include information about families that used both the tax credit and the employer exclusion.

Tax Return Data for 1998

Tables 98-1 through 98-8 for 1998 are similar to the 1997 tables described above. However, Table 98-3 reflects the fact that some of the adoption tax credit used in 1998 represents unused credits carried forward from 1997. Also, the credits carried forward from 1998 to 1999 include tax credits that were generated by qualified expenses in 1997. In addition, Tables 98-1 and 98-7 do not include taxpayers with carryovers from 1997 but without any qualified expenses in 1998.

There are some inconsistencies between the carryforwards shown in the 1997 data (Table 97-3) and the carryforwards shown in the 1998 data as having been carried forward from 1997 (Table 98-3). Table 98-3 shows that adoption tax credits of \$24.3 million were carried forward from 1997 to 1998 on 11,251 tax returns. However, Table 97-3 shows that \$29.9 million of unused tax credits were carried forward from 1997 on 14,817 tax returns. Thus, it appears that nearly 3,600 taxpayers did not report about \$5.6 million of tax credits that, based on 1997 returns, were carried forward from 1997. Given that some of the carryovers from 1997 that were reported on 1998 tax returns may have originated on amended tax returns for 1997 (which are not included in the data used for this report), the amount of unclaimed carry forwards may be even larger. The apparent failure to claim 1997 credits carried forward may have several explanations. For example, some taxpayers may not have had sufficient tax liability for 1998 but may use the tax credits in future years.

Taxpayers Reporting Adoption Tax Benefits in 1997 and 1998

Tables C-1 and C-2 contain summary statistics about the use of tax benefits for adoption for taxpayers who reported the use of at least one of the adoption tax benefits in both 1997 and 1998.⁸ Table C-1 shows the number of adoptions and tax returns, total qualified adoption expenses reported for both years including both taxable and non-taxable portions of employer reimbursements, and tax benefits. Table C-2 shows the distribution of total expenses per taxpayer by size of total expenses. As mentioned previously, it is possible that in some cases expenses in 1998 were not reported if qualified expenses in 1997 were in excess of the maximum credit.

⁷ Reimbursements of \$6,000 or more are not further distinguished due to the small number of tax returns in this category.

⁸ Some returns reporting adoption expenses in both 1997 and 1998 were excluded from the analysis because it was not possible to distinguish whether adoptions on these returns represented the same or different adoptions.

Data Sources And Limitations

The data presented in this chapter are based on the taxpayers' qualified adoption expenses for the tax credit, employer payments and reimbursements, and the resulting tax benefits, as reported on the tax returns of all taxpayers who used either the tax credit or the exclusion for employer payments and reimbursements, or both, in 1997 and 1998. The information is as reported by taxpayers, and thus reflects any errors, omissions, and inconsistencies as shown on the tax returns. For this report, the Internal Revenue Service prepared from its administrative files a special data extract for each year containing data from every tax return in which one or both of the adoption benefits was reported or which included a Form 8839. The data on these extracts were processed and tabulated by the Office of Tax Analysis in the Treasury Department.⁹

Six limitations of the data from these tax returns have implications for interpreting the material presented in this report.

The data used for this report do not include information from amended tax returns. If a taxpayer did not claim any adoption tax benefits on his or her tax return as originally filed but subsequently claimed such benefits on an amended return, the taxpayer is not included in the data used for this report. Because the adoption benefits were first available for tax year 1997, some taxpayers might not have been aware of the benefits and, hence, did not claim them on the tax return as initially filed, but later became aware of the omission and claimed the benefits by filing an amended return. Hence, it is possible that the tabulated 1997 data would understate use of the tax benefits for adoption. Comparison of 1997 and 1998 tax return data suggest that there were some omissions on originally-filed 1997 tax returns. For example, about 3,000 1998 returns show carryovers of unused 1997 adoption tax credits even though the originally filed 1997 returns do not report any adoption expenses. However, some of this difference could be attributable to processing or other errors.

The tax return data upon which this report is based were transcribed for IRS's administrative requirements, and certain items were omitted. In many instances, the items that were not transcribed should be obtainable by arithmetic calculation from the transcribed data. However, when there are other errors, the lack of some items can lead to uncertainty about the available information. In other instances, the lack of some items limits the information about the use of the adoption tax benefits. For example, when an employer provides benefits to a taxpayer for the adoption of two children in a single year, the amount of the benefits paid for each child cannot be determined. Similarly, for carryforwards from 1998 to 1999, the year (1997 or 1998) in which the carry forwards originated was not available from IRS administrative data.

The data have been checked for many types of inconsistencies and errors, but the data have been altered to correct only the most obvious errors. When review of the taxpayer's record indicated that the inconsistency was due to simple errors such as misplacing a decimal point or

⁹ The numbers of tax returns reporting tax benefits for adoption shown in this report may differ slightly from the numbers reported by the Internal Revenue Services in its various publications. The numbers in this report exclude a small percentage of tax returns with apparently inconsistent information.

making an entry one line above or below its proper location, the data were adjusted. Where remaining discrepancies did not seem to be significant, the inconsistent record was used. However, the small percentage of tax return records with significant unresolved discrepancies was omitted from consideration for this report. The proportion of omitted tax returns is so small that it does not have an appreciable impact on the implications that can be drawn from the data.

The data are from tax returns as filed and do not include the results of any modifications that have been made, or which may be made in the future, as the result of IRS examinations. Generally, it is not possible to determine the extent to which the adoption-related data might change following examination. In a few instances, however, the data seem to indicate results which do not conform to the adoption tax provisions. For example, the provisions do not permit adoptions of foreign children with serious medical conditions to receive the higher benefit levels that are available for special needs adoptions. Nevertheless, in each of the two years several hundred adoptions were reported to be foreign children with special needs. While some of those cases may be attributable to errors in transcribing the data on tax returns, some may also be due to errors or misunderstanding by taxpayers. Throughout the report, adoptions that were reported by the taxpayer as being foreign children with special needs are classified and included in the tables as adoptions of foreign children.

In order to provide some information about the costs of adoptions, as reported, qualified adoption expenses and employer payments or reimbursements have been tabulated without regard to the statutory limits for which tax benefits may have been available. It should be recognized, however, that for purposes of the tax credit, taxpayers do not have a financial incentive to include qualified expenses in excess of the levels for which the tax credit may be available. The data indicate that many taxpayers do show such information on their tax returns, but the extent, if any, of non-reporting of excess expenses cannot be determined from the tax return data.

The tables do not include information about taxpayers who received employer-paid adoption benefits if, because of the employee's income level, all of the employer benefits were fully taxable. Employer benefits are not included in the taxable wages of employees as reported to the employee and to IRS on the employee's Wage and Tax Statement (Form W-2), but the amount of such benefits is reported separately on Form W-2. The taxable amount, if any, of such benefits is reported by the employee on Form 8839. In 1997 and 1998, several hundred higher-income taxpayers used Form 8839 to include in income the entire amount of the adoption benefits received from the employer. When the entire amount was taxable, the taxpayer was excluded from the tables for employer-provided adoption benefits. If the entire amount of employer benefits was taxable and the taxpayer did not report any qualified expenses for purposes of the adoption tax credit, the taxpayer was not included in any of the tables.

Table 97 - 1

**Adoption Expenses and Tax Benefits, 1997:
Adoption Tax Credit and Exclusion for Employer Benefits Combined**

	Number of Returns ²	Number of Adoptions	Qualified Adoption Expenses ³ (\$ in 000s)	Value of Tax Benefits in 1997			Tax Credit Carried Forward (\$ in 000s)
				Employer Exclusion (\$ in 000s)	Tax Credit (\$ in 000s)	Total (\$ in 000s)	
All Adoptions							
Total	36,453	40,523	226,296	1,315	68,695	70,010	29,875
By Adjusted Gross Income							
Under \$15,000	821	941	3,844	14	48	62	2,061
\$ 15,000 - \$ 24,999	2,278	2,562	8,461	68	1,280	1,348	3,290
\$ 25,000 - \$ 49,999	11,796	13,182	55,679	323	20,722	21,045	10,018
\$ 50,000 - \$ 74,999	12,546	13,933	82,657	538	30,601	31,139	10,079
\$ 75,000 - \$ 99,999	6,867	7,573	56,893	321	14,450	14,771	4,081
\$100,000 and over	2,145	2,332	18,762	51	1,593	1,644	345
By Filing Status							
Married Filing Jointly	32,279	35,984	199,969	1,187	61,861	63,048	24,775
Other	4,174	4,539	26,327	128	6,834	6,962	5,099
Children with Special Needs (domestic)							
Total	3,169	3,866	12,270	115	4,639	4,754	2,749
By Adjusted Gross Income							
Under \$15,000	96	126	315	2	5	7	209
\$ 15,000 - \$ 24,999	278	341	794	9	138	147	382
\$ 25,000 - \$ 49,999	1,248	1,534	4,150	39	1,749	1,788	1,037
\$ 50,000 - \$ 74,999	1,031	1,234	4,412	45	1,998	2,043	812
\$ 75,000 - \$ 99,999	416	515	2,024	19	680	699	284
\$100,000 and over	100	116	576	1	69	70	25
By Filing Status							
Married Filing Jointly	2,710	3,335	10,783	102	4,103	4,205	2,285
Other	459	531	1,487	13	536	549	464
Foreign Children¹							
Total	10,375	11,561	113,025	410	24,238	24,648	13,686
By Adjusted Gross Income							
Under \$15,000	149	172	1,647	1	10	11	696
\$ 15,000 - \$ 24,999	320	347	2,835	5	227	232	948
\$ 25,000 - \$ 49,999	2,623	2,907	25,050	59	6,197	6,256	4,354
\$ 50,000 - \$ 74,999	3,821	4,286	41,852	191	10,921	11,112	5,303
\$ 75,000 - \$ 99,999	2,592	2,880	31,304	135	6,129	6,264	2,215
\$100,000 and over	870	969	10,338	21	753	774	171
By Filing Status							
Married Filing Jointly	8,686	9,770	95,496	360	20,597	20,957	10,686
Other	1,689	1,791	17,529	50	3,641	3,691	3,000

Table 97 - 2

Number of Returns By Size of Expenses Including Total Employer Payments and Reimbursements, 1997

All Returns ²	Amount of Qualified Adoption Expenses per Return								
	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over

All Adoptions

Total	36,453	8,759	4,715	2,698	1,989	1,663	3,617	4,693	3,924	4,395
By Adjusted Gross Income										
Under \$15,000	821	257	137	69	37	42	82	77	58	62
\$ 15,000 - \$ 24,999	2,278	815	391	210	123	86	216	216	119	102
\$ 25,000 - \$ 49,999	11,796	3,525	1,803	1,031	742	604	1,055	1,288	905	843
\$ 50,000 - \$ 74,999	12,546	2,689	1,525	873	720	561	1,296	1,767	1,506	1,609
\$ 75,000 - \$ 99,999	6,867	1,102	683	402	295	290	737	1,022	1,013	1,323
\$100,000 and over	2,145	371	176	113	72	80	231	323	323	456
By Filing Status										
Married Filing Jointly	32,279	7,828	4,139	2,377	1,792	1,516	3,192	4,118	3,467	3,850
Other	4,174	931	576	321	197	147	425	575	457	545

Children with Special Needs (domestic)

Total	3,169	1,078	513	272	220	164	154	452	189	127
By Adjusted Gross Income										
Under \$15,000	96	43	13	6	5	5	5	10	6	3
\$ 15,000 - \$ 24,999	278	111	47	24	23	10	13	38	7	5
\$ 25,000 - \$ 49,999	1,248	469	218	106	97	64	57	145	59	33
\$ 50,000 - \$ 74,999	1,031	318	155	96	67	61	50	159	76	49
\$ 75,000 - \$ 99,999	416	108	69	36	26	17	23	77	33	27
\$100,000 and over	100	29	11	[-----6-----]		7	6	23	8	10
By Filing Status										
Married Filing Jointly	2,710	910	441	231	182	146	128	383	173	116
Other	459	168	72	41	38	18	26	69	16	11

Foreign Children¹

Total	10,375	1,311	512	288	228	186	1,071	1,533	2,148	3,098
By Adjusted Gross Income										
Under \$15,000	149	12	6	10	4	5	17	24	28	43
\$ 15,000 - \$ 24,999	320	44	24	16	12	7	42	51	57	67
\$ 25,000 - \$ 49,999	2,623	376	157	98	81	58	297	439	498	619
\$ 50,000 - \$ 74,999	3,821	495	180	91	80	61	387	563	822	1,142
\$ 75,000 - \$ 99,999	2,592	274	107	59	41	37	242	347	561	924
\$100,000 and over	870	110	38	14	10	18	86	109	182	303
By Filing Status										
Married Filing Jointly	8,686	1,139	446	244	199	162	858	1,195	1,802	2,641
Other	1,689	172	66	44	29	24	213	338	346	457

Table 97 - 3

**Adoption Tax Credit, 1997:
Covered Adoptions, Expenses, and Tax Credit**

	Number of Returns ⁴	Number of Adoptions	Adoption Expenses Total (\$ in 000s)	Adoption Credit				
Total (\$ in 000s)				Allowed for 1997		Carried Forward		
				(number)	(\$ in 000s)	(number)	(\$ in 000s)	
All Adoptions								
Total	36,157	40,197	218,761	98,569	34,711	68,695	14,817	29,875
By Adjusted Gross Income								
Under \$15,000	816	935	3,743	2,110	131	48	778	2,061
\$ 15,000 - \$ 24,999	2,266	2,547	7,925	4,570	1,890	1,280	1,415	3,290
\$ 25,000 - \$ 49,999	11,725	13,100	53,276	30,740	11,575	20,722	4,615	10,018
\$ 50,000 - \$ 74,999	12,450	13,831	79,819	40,680	12,403	30,601	5,367	10,079
\$ 75,000 - \$ 99,999	6,795	7,495	55,241	18,531	6,697	14,450	2,433	4,081
\$100,000 and over	2,105	2,289	18,757	1,938	2,015	1,593	209	345
By Filing Status								
Married Filing Jointly	32,013	35,691	193,189	86,636	30,797	61,861	12,637	24,775
Other	4,144	4,506	25,572	11,933	3,914	6,834	2,180	5,099
Children with Special Needs (domestic)								
Total	3,146	3,836	11,552	7,388	2,967	4,639	1,137	2,749
By Adjusted Gross Income								
Under \$15,000	96	126	305	214	17	5	87	209
\$ 15,000 - \$ 24,999	277	339	734	520	221	138	168	382
\$ 25,000 - \$ 49,999	1,240	1,522	3,851	2,786	1,218	1,749	409	1,037
\$ 50,000 - \$ 74,999	1,023	1,225	4,152	2,810	1,015	1,998	331	812
\$ 75,000 - \$ 99,999	410	508	1,938	964	400	680	132	284
\$100,000 and over	100	116	572	95	96	69	10	25
By Filing Status								
Married Filing Jointly	2,691	3,310	10,143	6,388	2,547	4,103	944	2,285
Other	455	526	1,409	1,000	420	536	193	464
Foreign Children¹								
Total	10,315	11,495	110,886	37,841	10,010	24,213	5,735	13,628
By Adjusted Gross Income								
Under \$15,000	149	172	1,642	706	26	10	147	696
\$ 15,000 - \$ 24,999	320	347	2,794	1,164	264	227	243	937
\$ 25,000 - \$ 49,999	2,614	2,896	24,654	10,527	2,573	6,188	1,706	4,339
\$ 50,000 - \$ 74,999	3,803	4,268	40,867	16,188	3,787	10,908	2,374	5,279
\$ 75,000 - \$ 99,999	2,572	2,857	30,569	8,332	2,539	6,126	1,165	2,207
\$100,000 and over	857	955	10,361	924	821	753	100	171
By Filing Status								
Married Filing Jointly	8,628	9,706	93,616	31,201	8,382	20,573	4,599	10,628
Other	1,687	1,789	17,269	6,640	1,628	3,640	1,136	3,000

Table 97 - 4
Adoption Tax Credit, 1997:
Number of Adoption by Size of Expenses

	Amount of Qualified Adoption Expenses per Adoption									
	All	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over
All Adoptions										
Total	40,197	11,901	5,068	2,681	1,903	1,611	4,242	4,978	3,878	3,935
By Adjusted Gross Income										
Under \$15,000	935	354	145	65	42	45	96	75	57	56
\$ 15,000 - \$ 24,999	2,547	1,147	394	184	110	76	256	192	98	90
\$ 25,000 - \$ 49,999	13,100	4,829	1,951	1,013	672	545	1,193	1,288	863	746
\$ 50,000 - \$ 74,999	13,831	3,658	1,697	886	693	559	1,542	1,917	1,464	1,415
\$ 75,000 - \$ 99,999	7,495	1,505	707	418	298	299	879	1,135	1,057	1,197
\$100,000 and over	2,289	408	174	115	88	87	276	371	339	431
By Filing Status										
Married Filing Jointly	35,691	10,671	4,458	2,355	1,716	1,453	3,778	4,400	3,433	3,427
Other	4,506	1,230	610	326	187	158	464	578	445	508
Children with Special Needs (domestic)										
Total	3,836	1,699	590	294	200	156	149	505	144	99
By Adjusted Gross Income										
Under \$15,000	126	66	13	8	6	5	9	14	[-----5-----]	
\$ 15,000 - \$ 24,999	339	175	56	22	20	10	12	34	5	5
\$ 25,000 - \$ 49,999	1,522	751	231	122	83	55	53	158	46	23
\$ 50,000 - \$ 74,999	1,225	489	198	97	57	58	47	180	61	38
\$ 75,000 - \$ 99,999	508	184	78	41	23	23	22	91	23	23
\$100,000 and over	116	34	14	4	11	5	6	29	7	9
By Filing Status										
Married Filing Jointly	3,310	1,472	507	244	164	134	128	442	131	88
Other	526	227	83	50	36	22	21	63	13	11
Foreign Children¹										
Total	11,495	1,625	563	296	264	220	1,448	1,930	2,387	2,762
By Adjusted Gross Income										
Under \$15,000	172	13	10	9	7	8	23	29	34	39
\$ 15,000 - \$ 24,999	347	60	24	14	13	7	53	55	61	60
\$ 25,000 - \$ 49,999	2,896	475	180	103	90	63	387	506	537	555
\$ 50,000 - \$ 74,999	4,268	617	207	103	97	76	545	740	885	998
\$ 75,000 - \$ 99,999	2,857	341	108	55	43	48	326	448	660	828
\$100,000 and over	955	119	34	12	14	18	114	152	210	282
By Filing Status										
Married Filing Jointly	9,706	1,410	495	253	233	192	1,202	1,546	2,039	2,336
Other	1,789	215	68	43	31	28	246	384	348	426

U.S. Treasury Department
Office of Tax Analysis

15-Sep-00

Footnotes follow Table C-2.

Table 97 - 5

**Employer-Provided Adoption Benefits, 1997:
Total and Excluded Employer Payments and Reimbursements and Tax Benefits**

	Number of Returns ²	Number of Adoptions	Employer Payments and Reimbursements			Tax Benefit ⁶ (\$ in 000s)
			Total ⁵	Taxable	Non-Taxable	
			(\$ in 000s)	(\$ in 000s)	Employer Exclusion (\$ in 000s)	
All Adoptions						
Total	2,940	3,269	7,950	1,482	6,468	1,315
By Adjusted Gross Income						
Under \$15,000	46	50	101	7	94	14
\$ 15,000 - \$ 24,999	197	223	535	83	452	68
\$ 25,000 - \$ 49,999	942	1,055	2,367	282	2,085	323
\$ 50,000 - \$ 74,999	1,019	1,135	2,770	267	2,503	538
\$ 75,000 - \$ 99,999	558	615	1,635	480	1,155	321
\$100,000 and over	178	191	542	364	179	51
By Filing Status						
Married Filing Jointly	2,639	2,941	7,200	1,382	5,818	1,187
Other	301	328	750	100	650	128
Children with Special Needs (domestic)						
Total	290	348	713	85	628	115
By Adjusted Gross Income						
Under \$15,000	5	6	11	0	10	2
\$ 15,000 - \$ 24,999	24	31	60	1	59	9
\$ 25,000 - \$ 49,999	124	153	290	31	259	39
\$ 50,000 - \$ 74,999	96	108	254	26	228	45
\$ 75,000 - \$ 99,999	37	46	85	17	68	19
\$100,000 and over	4	4	13	9	4	1
By Filing Status						
Married Filing Jointly	254	308	631	82	549	102
Other	36	40	82	3	79	13
Foreign Children¹						
Total	784	883	2,360	541	1,819	410
By Adjusted Gross Income						
Under \$15,000	20	23	46	10	36	6
\$ 15,000 - \$ 24,999	160	174	395	34	361	59
\$ 25,000 - \$ 49,999	303	348	950	85	865	191
\$ 50,000 - \$ 74,999	225	256	723	237	486	135
\$ 75,000 - \$ 99,999	76	82	247	175	72	21
By Filing Status						
Married Filing Jointly	685	779	2,106	504	1,602	360
Other	99	104	254	37	217	50

Table 97 - 6

Employer-Provided Adoption Benefits, 1997:
Number of Returns by Size of Total Employer Payments or Reimbursements

Amount of Adoption Payments or Reimbursements per Return								
All Returns ²	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 And Over	
All Adoptions								
Total	2,940	349	394	1,043	540	243	220	151
By Adjusted Gross Income								
Under \$15,000	46	9	7	15	10	[-----5-----]		
\$ 15,000 - \$ 24,999	197	33	27	66	27	16	11	17
\$ 25,000 - \$ 49,999	942	142	141	332	138	87	68	34
\$ 50,000 - \$ 74,999	1,019	110	137	375	187	84	75	51
\$ 75,000 - \$ 99,999	558	46	70	195	122	39	50	36
\$100,000 and over	178	9	12	60	56	15	14	12
By Filing Status								
Married Filing Jointly	2,639	310	343	931	494	223	200	138
Other	301	39	51	112	46	20	20	13
Children with Special Needs (domestic)								
Total	290	55	46	92	42	26	15	14
By Adjusted Gross Income								
Under \$15,000	5	0	[-----5-----]			0	0	0
\$ 15,000 - \$ 24,999	24	6	4	5	[-----6-----]		0	3
\$ 25,000 - \$ 49,999	124	22	22	43	16	10	7	4
\$ 50,000 - \$ 74,999	96	16	13	31	15	10	6	5
\$ 75,000 - \$ 99,999	37	10	6	10	5	3	[-----3-----]	
\$100,000 and over	4	[-----4-----]						
By Filing Status								
Married Filing Jointly	254	50	37	81	35	25	14	12
Other	36	5	9	11	7	[-----4-----]		
Foreign Children¹								
Total	784	51	85	287	159	61	85	56
By Adjusted Gross Income								
Under \$15,000	20	[-----4-----]		12	[-----4-----]			0
\$ 15,000 - \$ 24,999	160	23	21	64	21	9	18	4
\$ 25,000 - \$ 49,999	303	14	31	112	61	28	33	24
\$ 50,000 - \$ 74,999	225	9	26	77	52	16	25	20
\$ 75,000 - \$ 99,999	76	4	4	22	24	7	7	8
\$100,000 and over								
By Filing Status								
Married Filing Jointly	685	43	75	240	142	56	74	55
Other	99	8	10	47	17	5	[-----12-----]	

Table 97 - 7

**Adoption Expenses and Tax Benefits for Taxpayers using Both Adoption Benefits, 1997:
Adoption Tax Credit and Employer Exclusion Combined**

Number of Returns	Number of Adoptions	Qualified Adoption Expenses ³ (\$ in 000s)	Value of Tax Benefits in 1997			Tax Credit Carry Forward (\$ in 000s)
			Employer Exclusion (\$ in 000s)	Tax Credit (\$ in 000s)	Total (\$ in 000s)	

All Adoptions

Total	2,644	2,943	23,240	1,185	5,225	6,410	2,105
By Adjusted Gross Income							
Under \$15,000	41	44	156	13	2	15	59
\$ 15,000 - \$ 24,999	185	208	1,022	63	102	165	267
\$ 25,000 - \$ 49,999	871	973	5,588	297	1,469	1,766	640
\$ 50,000 - \$ 74,999	923	1,033	8,739	488	2,393	2,881	794
\$ 75,000 - \$ 99,999	486	537	6,045	284	1,135	1,419	339
\$100,000 and over	138	148	1,690	39	124	163	5
By Filing Status							
Married Filing Jointly	2,373	2,648	21,018	1,071	4,804	5,875	1,773
Other	271	295	2,222	113	420	533	332

Children with Special Needs (domestic)

Total	267	318	1,571	104	403	507	227
By Adjusted Gross Income							
Under \$15,000	5	6	21	[----- 6 -----]			10
\$ 15,000 - \$ 24,999	23	29	100	8	11	19	36
\$ 25,000 - \$ 49,999	116	141	604	37	160	197	93
\$ 50,000 - \$ 74,999	88	99	614	41	179	220	65
\$ 75,000 - \$ 99,999	31	39	209	16	51	67	23
\$100,000 and over	4	4	21	[----- 6 -----]			0
By Filing Status							
Married Filing Jointly	235	283	1,433	94	367	461	199
Other	32	35	137	10	37	47	29

Foreign Children¹

Total	724	817	10,776	376	1,887	2,263	996
By Adjusted Gross Income							
Under \$15,000	20	23	244	6	15	21	79
\$ 15,000 - \$ 24,999	151	163	1,832	54	379	433	237
\$ 25,000 - \$ 49,999	285	330	4,282	180	913	1,093	469
\$ 50,000 - \$ 74,999	205	233	3,482	121	521	642	210
\$ 75,000 - \$ 99,999	63	68	937	16	59	75	2
By Filing Status							
Married Filing Jointly	627	715	9,439	328	1,666	1,994	822
Other	97	102	1,337	48	222	270	174

Table 97 - 8

**Number of Returns by Size of Expenses Including Total Employer Payments and Reimbursements
for Taxpayers using Both Adoption Benefits, 1997**

All Returns	Amount of Qualified Adoption Expenses per Return								
	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over

All Adoptions

Total	2,644	60	173	266	317	244	201	512	384	487
By Adjusted Gross Income										
Under \$15,000	41	[-----9-----]	12	7	4	3	-----6-----			
\$ 15,000 - \$ 24,999	185	6	15	43	32	23	13	30	9	14
\$ 25,000 - \$ 49,999	871	27	87	120	133	117	79	154	73	81
\$ 50,000 - \$ 74,999	923	16	42	74	119	62	65	198	167	180
\$ 75,000 - \$ 99,999	486	3	19	14	21	30	35	97	105	162
\$100,000 and over	138	7	[-----5-----]	5	8	6	29	29	49	
By Filing Status										
Married Filing Jointly	2,373	55	151	228	287	222	178	462	352	438
Other	271	5	22	38	30	22	23	50	32	49

Children with Special Needs (domestic)

Total	267	10	30	33	51	31	22	53	24	13
By Adjusted Gross Income										
Under \$15,000	5	0	0	[-----5-----]					0	0
\$ 15,000 - \$ 24,999	23	[-----4-----]	3	6	4	[-----6-----]				
\$ 25,000 - \$ 49,999	116	5	14	17	22	14	10	22	8	4
\$ 50,000 - \$ 74,999	88	[-----8-----]	10	18	11	6	17	12	6	
\$ 75,000 - \$ 99,999	31	[-----8-----]	6	4	7	[-----6-----]				
\$100,000 and over	4	[-----4-----]								
By Filing Status										
Married Filing Jointly	235	10	26	29	45	24	18	46	24	13
Other	32	0	4	4	6	7	4	7	0	0

Foreign Children¹

Total	724	5	14	28	24	22	15	103	160	353
By Adjusted Gross Income										
Under \$15,000	20	0	0	[-----5-----]	0	0	3	4	8	
\$ 15,000 - \$ 24,999	151	[-----10-----]	12	7	7	4	29	24	58	
\$ 25,000 - \$ 49,999	285	[-----4-----]	8	11	8	4	42	75	133	
\$ 50,000 - \$ 74,999	205	0	[-----4-----]	4	5	5	24	43	120	
\$ 75,000 - \$ 99,999	63	[-----10-----]					5	14	34	
By Filing Status										
Married Filing Jointly	627	5	11	22	23	21	12	84	140	309
Other	97	0	3	6	-----5-----		19	20	44	

Table 98 - 1

Adoption Expenses and Tax Benefits, 1998:
Adoption Tax Credit and Exclusion for Employer Benefits Combined

	Number of Returns ^{2,7}	Number of Adoptions	Qualified Adoption Expenses ³ (\$ in 000s)	Value of Tax Benefits in 1998			Tax Credit Carry Forward (\$ in 000s)
				Employer Exclusion (\$ in 000s)	Tax Credit (\$ in 000s)	Total (\$ in 000s)	
All Adoptions							
Total	43,363	48,174	289,395	1,672	96,229	97,901	47,758
By Adjusted Gross Income							
Under \$15,000	1,050	1,219	5,068	29	49	78	3,651
\$ 15,000 - \$ 24,999	2,245	2,522	9,224	80	799	879	6,297
\$ 25,000 - \$ 49,999	13,463	15,030	67,617	361	21,748	22,109	23,580
\$ 50,000 - \$ 74,999	15,146	16,777	105,014	701	46,236	46,937	11,662
\$ 75,000 - \$ 99,999	8,636	9,512	75,796	434	24,648	25,082	2,226
\$100,000 and over	2,823	3,114	26,676	68	2,749	2,817	342
By Filing Status							
Married Filing Jointly	37,985	42,345	253,607	1,493	84,706	86,199	39,705
Other	5,378	5,829	35,788	179	11,524	11,703	8,053
Children with Special Needs (domestic)							
Total	3,816	4,601	16,393	129	6,762	6,891	5,033
By Adjusted Gross Income							
Under \$15,000	113	145	420	5	6	11	362
\$ 15,000 - \$ 24,999	245	289	697	12	66	78	597
\$ 25,000 - \$ 49,999	1,388	1,683	4,933	36	1,766	1,802	2,459
\$ 50,000 - \$ 74,999	1,315	1,588	5,769	51	3,203	3,254	1,387
\$ 75,000 - \$ 99,999	604	717	3,626	21	1,567	1,588	196
\$100,000 and over	151	179	948	3	154	157	32
By Filing Status							
Married Filing Jointly	3,249	3,944	14,466	108	5,991	6,099	4,261
Other	567	657	1,928	21	771	792	771
Foreign Children¹							
Total	11,990	13,443	137,784	545	35,918	36,463	18,432
By Adjusted Gross Income							
Under \$15,000	173	198	1,888	1	8	9	1,023
\$ 15,000 - \$ 24,999	353	395	3,532	5	167	172	1,890
\$ 25,000 - \$ 49,999	2,829	3,157	28,494	69	6,367	6,436	8,808
\$ 50,000 - \$ 74,999	4,485	5,022	51,445	263	17,618	17,881	5,504
\$ 75,000 - \$ 99,999	3,027	3,398	38,236	178	10,440	10,618	1,046
\$100,000 and over	1,123	1,273	14,188	28	1,318	1,346	161
By Filing Status							
Married Filing Jointly	9,755	11,084	114,140	468	29,244	29,712	14,192
Other	2,235	2,359	23,645	77	6,674	6,751	4,240

Table 98 - 2

Number of Returns By Size of Expenses Including Total Employer Payments and Reimbursements, 1998

		Amount of Qualified Adoption Expenses per Return								
	All Returns ^{2,7}	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over
All Adoptions										
Total	43,363	9,020	5,393	3,281	2,163	1,677	5,591	5,063	5,234	5,941
By Adjusted Gross Income										
Under \$15,000	1,050	295	165	81	81	42	139	84	86	77
\$ 15,000 - \$ 24,999	2,245	711	395	171	123	86	311	190	137	121
\$ 25,000 - \$ 49,999	13,463	3,620	2,032	1,208	772	570	1,640	1,358	1,202	1,061
\$ 50,000 - \$ 74,999	15,146	2,892	1,813	1,145	730	607	1,928	1,904	1,982	2,145
\$ 75,000 - \$ 99,999	8,636	1,068	798	545	358	298	1,198	1,163	1,377	1,831
\$100,000 and over	2,823	434	190	131	99	74	375	364	450	706
By Filing Status										
Married Filing Jointly	37,985	7,999	4,683	2,762	1,893	1,497	4,886	4,513	4,592	5,160
Other	5,378	1,021	710	519	270	180	705	550	642	781
Children with Special Needs (domestic)										
Total	3,816	1,203	544	347	253	163	178	675	292	161
By Adjusted Gross Income										
Under \$15,000	104	42	20	8	6	4	5	19	[-----9-----]	
\$ 15,000 - \$ 24,999	236	98	43	21	16	5	13	40	[-----9-----]	
\$ 25,000 - \$ 49,999	1,388	505	215	139	87	60	63	198	87	34
\$ 50,000 - \$ 74,999	1,315	392	180	111	97	57	65	260	105	48
\$ 75,000 - \$ 99,999	604	130	74	57	34	33	28	120	71	57
\$100,000 and over	151	36	12	11	13	4	4	38	19	14
By Filing Status										
Married Filing Jointly	3,249	992	457	296	215	135	151	591	269	143
Other	567	211	87	51	38	28	27	84	23	18
Foreign Children¹										
Total	11,990	943	531	438	244	172	1,790	1,273	2,694	3,905
By Adjusted Gross Income										
Under \$15,000	165	12	14	[-----8-----]		4	32	17	36	50
\$ 15,000 - \$ 24,999	353	32	9	19	6	6	85	37	70	89
\$ 25,000 - \$ 49,999	2,829	223	161	160	77	40	491	345	618	714
\$ 50,000 - \$ 74,999	4,485	357	221	165	88	64	624	484	1,027	1,455
\$ 75,000 - \$ 99,999	3,027	193	95	72	51	46	418	291	716	1,145
\$100,000 and over	1,123	126	31	19	17	12	140	99	227	452
By Filing Status										
Married Filing Jointly	9,755	812	422	309	208	139	1,387	1,003	2,206	3,269
Other	2,235	131	109	129	36	33	403	270	488	636

Table 98 - 3

**Adoption Tax Credit, 1998:
Covered Adoptions, Expenses, and Tax Credit**

	Returns with 1998 Credit and/or Carry Forward from 1997 or to 1999		Adoption Expenses, 1998 ^{4,8}		Credit for 1998 (\$ in 000s)	Carry Forward from 1997			Credit Taken in 1998 (\$ in 000s)	Credit Carried Forward to 1999 (\$ in 000s)
	Returns	Adoptions	Returns	Amount		Returns	Adoptions	Amount		
	(number)		(number)	(\$ in 000s)		(number)	(number)	(\$ in 000s)		
All Adoptions										
Total	49,647	55,026	42,613	279,887	129,226	11,251	12,685	24,273	104,212	53,368
By Adjusted Gross Income										
Under \$15,000	1,320	1,506	1,029	4,849	3,031	521	581	1,458	52	4,438
\$ 15,000 - \$ 24,999	2,606	2,910	2,176	8,595	5,784	940	1,040	2,237	869	7,169
\$ 25,000 - \$ 49,999	15,297	17,029	13,271	64,752	39,517	3,992	4,462	8,913	23,697	25,514
\$ 50,000 - \$ 74,999	17,328	19,144	14,901	101,096	53,342	3,693	4,205	7,337	49,388	12,836
\$ 75,000 - \$ 99,999	9,818	10,806	8,460	73,372	25,152	1,543	1,757	3,159	26,690	2,794
\$100,000 and over	3,278	3,631	2,776	27,224	2,401	562	640	1,168	3,516	617
By Filing Status										
Married Filing Jointly	43,389	48,276	37,340	245,123	112,145	9,495	10,774	20,219	91,469	44,434
Other	6,258	6,750	5,273	34,764	17,081	1,756	1,911	4,054	12,743	8,934
Children with Special Needs (domestic)										
Total	4,174	5,031	3,748	15,510	10,344	839	1,026	2,136	7,258	5,506
By Adjusted Gross Income										
Under \$15,000	126	159	108	384	289	48	62	117	6	400
\$ 15,000 - \$ 24,999	284	336	235	603	524	102	125	252	73	704
\$ 25,000 - \$ 49,999	1,520	1,846	1,371	4,619	3,630	340	412	888	1,897	2,677
\$ 50,000 - \$ 74,999	1,418	1,711	1,289	5,451	4,139	236	291	606	3,411	1,455
\$ 75,000 - \$ 99,999	658	780	595	3,490	1,640	84	103	206	1,680	232
\$100,000 and over	168	199	150	963	123	29	33	68	191	38
By Filing Status										
Married Filing Jointly	3,555	4,314	3,188	13,725	9,033	694	851	1,818	6,415	4,675
Other	619	717	560	1,785	1,310	145	175	318	843	832
Foreign Children¹										
Total	14,087	15,834	11,791	135,143	47,962	3,818	4,504	9,678	39,091	20,310
By Adjusted Gross Income										
Under \$15,000	227	258	173	1,882	832	98	109	387	9	1,211
\$ 15,000 - \$ 24,999	413	463	345	3,469	1,642	164	185	625	181	2,089
\$ 25,000 - \$ 49,999	3,380	3,774	2,781	28,006	12,869	1,262	1,448	3,366	7,059	9,447
\$ 50,000 - \$ 74,999	5,318	5,966	4,417	50,043	20,885	1,502	1,795	3,431	18,920	6,025
\$ 75,000 - \$ 99,999	3,460	3,894	2,970	37,235	10,616	581	701	1,362	11,271	1,280
\$100,000 and over	1,289	1,479	1,105	14,508	1,118	211	266	507	1,653	259
By Filing Status										
Married Filing Jointly	11,462	13,068	9,588	111,802	38,466	3,005	3,631	7,556	31,791	15,704
Other	2,625	2,766	2,203	23,341	9,495	813	873	2,122	7,301	4,605

Table 98 - 4
Adoption Tax Credit, 1998:
Number of Adoptions by Size of Expenses

	Amount of Qualified Adoption Expenses per Adoption									
	All	Less Than 1,000	1,000 To 1,999	2,000 To 2,999	3,000 To 3,999	4,000 To 4,999	5,000 To 5,999	6,000 To 9,999	10,000 To 14,999	15,000 And Over
All Adoptions										
Total	47,332	12,550	5,780	2,977	2,001	1,630	6,654	5,273	5,025	5,442
By Adjusted Gross Income										
Under \$15,000	1,195	444	180	71	62	33	161	105	70	69
\$ 15,000 - \$ 24,999	2,441	1,007	390	127	87	77	365	163	113	112
\$ 25,000 - \$ 49,999	14,818	5,109	2,116	1,066	690	545	1,872	1,364	1,096	960
\$ 50,000 - \$ 74,999	16,498	4,022	1,999	1,073	692	601	2,322	1,980	1,854	1,955
\$ 75,000 - \$ 99,999	9,318	1,550	861	501	358	283	1,433	1,250	1,413	1,669
\$100,000 and over	3,062	418	234	139	112	91	501	411	479	677
By Filing Status										
Married Filing Jointly	41,625	11,153	5,025	2,510	1,774	1,461	5,860	4,730	4,423	4,689
Other	5,707	1,397	755	467	227	169	794	543	602	753
Children with Special Needs (domestic)										
Total	4,521	1,884	621	328	241	150	201	737	220	139
By Adjusted Gross Income										
Under \$15,000	138	75	18	6	[-----5-----]		5	23	[-----6-----]	
\$ 15,000 - \$ 24,999	278	152	42	18	6	5	11	37	[-----7-----]	
\$ 25,000 - \$ 49,999	1,663	794	243	121	77	52	62	225	60	29
\$ 50,000 - \$ 74,999	1,558	619	199	115	99	55	75	282	73	41
\$ 75,000 - \$ 99,999	707	201	98	56	43	27	44	124	64	50
\$100,000 and over	177	43	21	12	13	9	4	46	17	12
By Filing Status										
Married Filing Jointly	3,873	1,570	528	280	210	125	180	659	198	123
Other	648	314	93	48	31	25	21	78	22	16
Foreign Children¹										
Total	13,207	1,320	584	394	279	209	2,429	1,576	2,824	3,592
By Adjusted Gross Income										
Under \$15,000	198	19	12	8	7	4	38	30	33	47
\$ 15,000 - \$ 24,999	387	43	11	13	12	14	105	32	76	81
\$ 25,000 - \$ 49,999	3,104	341	166	147	87	55	622	413	619	654
\$ 50,000 - \$ 74,999	4,939	516	255	145	107	78	870	589	1,048	1,331
\$ 75,000 - \$ 99,999	3,329	291	105	56	45	42	576	385	786	1,043
\$100,000 and over	1,250	110	35	25	21	16	218	127	262	436
By Filing Status										
Married Filing Jointly	10,883	1,130	475	280	240	173	1,979	1,293	2,343	2,970
Other	2,324	190	109	114	39	36	450	283	481	622

Table 98 - 5

Employer-Provided Adoption Benefits, 1998:
Total and Excluded Employer Payments and Reimbursements and Tax Benefits

	Number of Returns ²	Number of Adoptions	Employer Payments and Reimbursements			Tax Benefit ⁶ (\$ in 000s)
			Total ⁵	Taxable	Non Taxable Employer Exclusion	
			(\$ in 000s)	(\$ in 000s)	(\$ in 000s)	
All Adoptions						
Total	3,848	4,261	10,712	2,083	8,629	1,672
By Adjusted Gross Income						
Under \$15,000	90	105	220	17	203	29
\$ 15,000 - \$ 24,999	261	303	616	51	565	80
\$ 25,000 - \$ 49,999	1,105	1,234	2,788	280	2,508	361
\$ 50,000 - \$ 74,999	1,353	1,492	3,863	399	3,464	701
\$ 75,000 - \$ 99,999	791	854	2,406	770	1,635	434
\$100,000 and over	248	273	820	566	254	68
By Filing Status						
Married Filing Jointly	3,418	3,784	9,594	1,949	7,644	1,493
Other	430	477	1,119	134	985	179
Children with Special Needs (domestic)						
Total	370	429	911	161	750	129
By Adjusted Gross Income						
Under \$15,000	17	22	35	0	35	5
\$ 15,000 - \$ 24,999	36	43	88	4	84	12
\$ 25,000 - \$ 49,999	130	153	296	34	262	36
\$ 50,000 - \$ 74,999	123	139	317	56	261	51
\$ 75,000 - \$ 99,999	51	57	137	46	91	21
\$100,000 and over	13	15	37	19	18	3
By Filing Status						
Married Filing Jointly	310	358	765	144	622	108
Other	60	71	145	17	128	21
Foreign Children¹						
Total	1,042	1,172	3,338	813	2,525	545
By Adjusted Gross Income						
Under \$15,000	3	3	7	0	7	1
\$ 15,000 - \$ 24,999	20	22	56	7	49	5
\$ 25,000 - \$ 49,999	172	196	483	30	454	69
\$ 50,000 - \$ 74,999	428	481	1,378	128	1,250	263
\$ 75,000 - \$ 99,999	305	337	1,000	336	664	178
\$100,000 and over	114	133	415	312	103	28
By Filing Status						
Married Filing Jointly	907	1,030	2,942	768	2,173	468
Other	135	142	396	44	352	77

Table 98 - 6

Employer-Provided Adoption Benefits, 1998:
Number of Returns by Size of Total Employer Payments or Reimbursements

Amount of Adoption Payments or Reimbursements per Return								
All Returns ²	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 And Over	
All Adoptions								
Total	3848	352	462	1549	711	248	354	172
By Adjusted Gross Income								
Under \$15,000	85	16	13	28	22	6	[-----5-----]	
\$ 15,000 - \$ 24,999	261	41	51	95	39	15	9	11
\$ 25,000 - \$ 49,999	1105	135	162	454	188	57	67	42
\$ 50,000 - \$ 74,999	1353	111	160	552	232	90	145	63
\$ 75,000 - \$ 99,999	791	41	67	326	161	60	99	37
\$100,000 and over	248	8	9	94	69	20	32	16
By Filing Status								
Married Filing Jointly	3418	298	391	1394	633	222	324	156
Other	430	54	71	155	78	26	30	16
Children with Special Needs (domestic)								
Total	370	54	58	128	73	27	18	12
By Adjusted Gross Income								
Under \$15,000	Data omitted temporarily, pending modification to prevent disclosure of tax return information.							
\$ 15,000 - \$ 24,999								
\$ 25,000 - \$ 49,999								
\$ 50,000 - \$ 74,999								
\$ 75,000 - \$ 99,999								
\$100,000 and over								
By Filing Status								
Married Filing Jointly	Data omitted temporarily, pending modification to prevent disclosure of tax return information.							
Other								
Foreign Children¹								
Total	1042	44	69	419	220	77	144	69
By Adjusted Gross Income								
Under \$15,000	Data omitted temporarily, pending modification to prevent disclosure of tax return information.							
\$ 15,000 - \$ 24,999								
\$ 25,000 - \$ 49,999								
\$ 50,000 - \$ 74,999								
\$ 75,000 - \$ 99,999								
\$100,000 and over								
By Filing Status								
Married Filing Jointly	Data omitted temporarily, pending modification to prevent disclosure of tax return information.							
Other								

Table 98 - 7

**Adoption Expenses and Tax Benefits for Taxpayers using Both Adoption Benefits, 1998:
Adoption Tax Credit and Employer Exclusion Combined**

	Number of Returns ⁷	Number of Adoptions	Qualified Adoption Expenses ³ (\$ in 000s)	Value of Tax Benefits in 1998			Tax Credit Carry Forward (\$ in 000s)
				Employer Exclusion (\$ in 000s)	Tax Credit (\$ in 000s)	Total (\$ in 000s)	
All Adoptions							
Total	3,098	3,419	29,898	1,375	7,158	8,533	2,657
By Adjusted Gross Income							
Under \$15,000	69	81	389	23		65	162
\$ 15,000 - \$ 24,999	192	222	923	58	42	58	372
\$ 25,000 - \$ 49,999	913	1,022	6,294	308	1,357	1,665	1,229
\$ 50,000 - \$ 74,999	1,108	1,213	12,014	586	3,653	4,239	786
\$ 75,000 - \$ 99,999	615	660	7,939	343	1,899	2,242	96
\$100,000 and over	201	221	2,339	57	206	263	12
By Filing Status							
Married Filing Jointly	2,773	3,064	27,212	1,233	6,546	7,779	2,288
Other	325	355	2,686	142	612	754	369
Children with Special Needs (domestic)							
Total	302	349	1,990	110	534	644	336
By Adjusted Gross Income							
Under \$15,000	12	15	61	4	0	4	25
\$ 15,000 - \$ 24,999	26	32	94	8	3	11	52
\$ 25,000 - \$ 49,999	113	133	602	34	133	167	149
\$ 50,000 - \$ 74,999	97	109	721	44	266	310	93
\$ 75,000 - \$ 99,999	42	47	431	20	121	141	17
\$100,000 and over	12	13	81		11	11	0
By Filing Status							
Married Filing Jointly	249	287	1,734	90	468	558	278
Other	53	62	257	19	67	86	58
Foreign Children¹							
Total	843	936	13,717	447	2,810	3,257	1,033
By Adjusted Gross Income							
Under \$15,000			63		0	4	18
\$ 15,000 - \$ 24,999	15	17	196	4	4	4	87
\$ 25,000 - \$ 49,999	124	143	1,965	55	284	339	436
\$ 50,000 - \$ 74,999	360	398	5,893	224	1,515	1,739	439
\$ 75,000 - \$ 99,999	248	268	4,224	142	894	1,036	46
\$100,000 and over	96	110	1,376	22	113	135	7
By Filing Status							
Married Filing Jointly	740	829	12,202	383	2,463	2,846	884
Other	103	107	1,515	64	347	411	149

Table 98 - 8

**Number of Returns by Size of Expenses Including Total Employer Payments and Reimbursements
for Taxpayers Using Both Adoption Benefits, 1998**

All Returns ⁷	Amount of Qualified Adoption Expenses per Return								
	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over

All Adoptions

Total	3,098	87	145	345	332	225	207	577	453	727
By Adjusted Gross Income										
Under \$15,000	69	3	5	14	17	8	5	7	3	7
\$ 15,000 - \$ 24,999	192	14	26	30	46	19	11	30	7	9
\$ 25,000 - \$ 49,999	913	22	64	169	145	93	82	161	76	101
\$ 50,000 - \$ 74,999	1,108	10	37	96	93	80	65	221	200	306
\$ 75,000 - \$ 99,999	615	4	12	31	23	23	36	122	133	231
\$100,000 and over	185	34	[-----6-----]		[-----10-----]		8	36	34	73
By Filing Status										
Married Filing Jointly	2,773	79	122	298	281	200	187	521	419	666
Other	325	8	23	47	51	25	20	56	34	61

Children with Special Needs (domestic)

Total	302	13	18	52	43	30	22	57	41	26
By Adjusted Gross Income										
Under \$15,000									0	1
\$ 15,000 - \$ 24,999									0	0
\$ 25,000 - \$ 49,999									8	5
\$ 50,000 - \$ 74,999									21	10
\$ 75,000 - \$ 99,999									11	9
\$100,000 and over									1	1
By Filing Status										
Married Filing Jointly									39	24
Other									2	2

Foreign Children¹

Total	843	19	3	17	13	21	11	111	172	476
By Adjusted Gross Income										
Under \$15,000									0	3
\$ 15,000 - \$ 24,999									1	7
\$ 25,000 - \$ 49,999									23	63
\$ 50,000 - \$ 74,999									73	205
\$ 75,000 - \$ 99,999									60	146
\$100,000 and over									15	52
By Filing Status										
Married Filing Jointly									151	428
Other									21	48

Table C-1

**Adoption Expenses and Tax Benefits:
Adoption Tax Credit and Exclusion for Employer Benefits Combined
For Tax Returns with Adoption Tax Benefits in Both 1997 and 1998**

Number of Returns ¹⁰	Number of Adoptions	Qualified Adoption Expenses ³ (\$ in 000s)	Value of Tax Benefits		
			Employer Exclusion (\$ in 000s)	Tax Credit (\$ in 000s)	Total (\$ in 000s)

All Adoptions

Total	7,365	8,341	97,750	624	45,498	46,122
By 1997 Adjusted Gross Income						
Under \$15,000	145	166	1,398	10	813	823
\$ 15,000 - \$ 24,999	411	460	4,043	31	2,291	2,322
\$ 25,000 - \$ 49,999	2,389	2,676	28,142	126	15,428	15,554
\$ 50,000 - \$ 74,999	2,980	3,401	41,467	305	19,967	20,272
\$ 75,000 - \$ 99,999	1,241	1,415	19,796	136	6,521	6,657
\$100,000 and over	199	223	2,904	15	479	494
By 1997 Filing Status						
Married Filing Jointly	6,388	7,277	84,493	556	39,329	39,885
Other	977	1,064	13,257	68	6,168	6,236

Children with Special Needs (domestic)

Total	587	714	6,408	48	3,758	3,806
By 1997 Adjusted Gross Income						
Under \$15,000	19	26	163	0	119	119
\$ 15,000 - \$ 24,999	38	45	254	7	158	165
\$ 25,000 - \$ 49,999	219	264	1,886	14	1,394	1,408
\$ 50,000 - \$ 74,999	223	272	2,814	20	1,607	1,627
\$ 75,000 - \$ 99,999	72	86	997	6	419	425
\$100,000 and over	16	21	295	0	61	61
By 1997 Filing Status						
Married Filing Jointly	512	623	5,778	44	3,353	3,397
Other	75	91	630	4	405	409

Foreign Children¹

Total	2702	3,158	48,691	253	19,082	19,335
By 1997 Adjusted Gross Income						
Under \$15,000	32	36	469	0	250	250
\$ 15,000 - \$ 24,999	105	116	1,763	2	835	837
\$ 25,000 - \$ 49,999	796	918	13,546	42	6,133	6,175
\$ 50,000 - \$ 74,999	1,145	1,348	20,871	136	8,563	8,699
\$ 75,000 - \$ 99,999	541	644	10,732	66	3,080	3,146
\$100,000 and over	83	96	1,310	7	222	229
By 1997 Filing Status						
Married Filing Jointly	2177	2,591	39,861	218	15,349	15,567
Other	525	567	8,829	34	3,733	3,767

Table C-2

**Adoption Tax Credit and Exclusion for Employer Benefits Combined:
Number of Returns By Size of Expenses Including Total Employer Payments and Reimbursements
For Tax Returns with Adoption Tax Benefits in Both 1997 and 1998**

All Returns ¹⁰	Amount of Total Expenses per Return								
	Less Than \$1,000	\$1,000 To \$1,999	\$2,000 To \$2,999	\$3,000 To \$3,999	\$4,000 To \$4,999	\$5,000 To \$5,999	\$6,000 To \$9,999	\$10,000 To \$14,999	\$15,000 And Over

All Adoptions

Total	7,365	216	329	292	291	268	448	1421	1621	2479
By 1997 Adjusted Gross Income										
Under \$15,000	145	10	12	8	10	9	12	25	28	31
\$ 15,000 - \$ 24,999	411	15	34	31	35	32	31	77	71	85
\$ 25,000 - \$ 49,999	2,389	79	133	130	116	102	147	517	517	648
\$ 50,000 - \$ 74,999	2,980	73	112	89	93	90	176	590	671	1086
\$ 75,000 - \$ 99,999	1,241	22	34	29	33	28	68	186	293	548
\$100,000 and over	199	17	4	5	4	7	14	26	41	81

By 1997 Filing Status

Married Filing Jointly	6,388	185	294	261	250	238	404	1243	1378	2135
Other	977	31	35	31	41	30	44	178	243	344

Children with Special Needs (domestic)

Total	587	24	39	27	47	27	26	139	128	130	
By 1997 Adjusted Gross Income											
Under \$15,000	19	[-----8-----]						3	[-----8-----]		
\$ 15,000 - \$ 24,999	38	[-----7-----]				6	3	6	8	5	3
\$ 25,000 - \$ 49,999	219	14	17	15	18	7	10	62	40	36	
\$ 50,000 - \$ 74,999	223	6	15	7	17	12	7	43	54	62	
\$ 75,000 - \$ 99,999	72	0	[-----3-----]		5	[-----4-----]		18	20	22	
\$100,000 and over	16	[-----3-----]						5	3	5	

By 1997 Filing Status

Married Filing Jointly	512	17	36	24	39	22	20	120	113	121
Other	75	7	3	3	8	5	6	19	15	9

Foreign Children¹

Total	2,702	70	49	32	30	25	106	314	622	1454
By 1997 Adjusted Gross Income										
Under \$15,000	32	[-----3-----]						4	3	8
\$ 15,000 - \$ 24,999	105	[-----4-----]		[-----5-----]		0	5	12	26	53
\$ 25,000 - \$ 49,999	796	20	16	9	12	8	31	112	208	380
\$ 50,000 - \$ 74,999	1,145	28	22	14	10	10	39	125	269	628
\$ 75,000 - \$ 99,999	541	13	7	5	5	3	23	54	97	334
\$100,000 and over	83	[-----8-----]						4	8	14

By 1997 Filing Status

Married Filing Jointly	2,177	62	42	28	25	21	88	244	463	1204
Other	525	8	7	4	5	4	18	70	159	250

Footnotes for Tables 97-1 through 97-8, 98-1 through 98-8, and C-1 through C-2

In all tables, details may not add to totals due to rounding.

1. Adoptions of foreign children include those reported as being both foreign and special needs.
2. Returns with only fully taxable employer benefits are not included in this table.
3. Qualified adoption expenses are the sum of qualifying expenses for the tax credit and employer benefits (taxable and non-taxable).
4. Returns with positive qualified expenses, but zero credit and carry forward due to income related phase-out are not included in this column.
5. Total may not equal the sum of taxable and non-taxable benefits due to rounding.
6. Tax benefits are the tax savings from having the non-taxable employer benefits excluded from taxable income. Tax benefits have been estimated by applying the appropriate marginal tax rate (including a zero rate, if appropriate) or rates to non-taxable employer benefits. The tax effects of interactions due to the exclusion of employer benefits have not been included.
7. Returns with only a carry forward from 1997 and without any qualifying expenses or employer benefits for 1998 are not included in this table.
8. The number of adoptions represented by these returns can be found in the following table.
9. Only returns with qualified expenses or employer benefits (non-taxable and taxable) in 1997 and 1998 are shown in this table.
10. Total credits are the sum of the credit taken in 1997, the credit taken in 1998, and the carry forward from 1998 to 1999.

Chapter V

OBSERVATIONS CONCERNING FEDERAL TAX BENEFITS FOR ADOPTIONS

The Congress enacted tax benefits for adoption in order to remove financial costs as a barrier to adoption and to further encourage the adoption of children with special needs. This chapter includes observations about the structure, beneficiaries, complexity, and administrability of the tax benefits, and the interaction between tax and expenditure programs for adoption.

BENEFICIARIES OF THE ADOPTION TAX PROVISIONS

Income Ranges for Receiving Benefits

The adoption tax provisions help families meet the expenses associated with an adoption, which can be substantial. In order to benefit from the provisions, a family must have income high enough to generate tax liability (before the adoption tax credit or exclusion is taken) and have income below the top of the adoption phaseout range (\$115,000).

The benefits for adoption may be limited unless the adopting family has sufficient tax liability prior to consideration of the adoption benefits. Adoption tax credits in excess of liability do not result in a payment to the taxpayer from the Internal Revenue Service (that is, they are not "refundable"), but unused tax credits may be carried forward for use in the five succeeding years. The exclusion for employer paid or reimbursed adoption expenses does not provide any tax benefit unless the family would have tax liability without the exclusion, and unlike the credit, the value of unused benefits may not be carried forward.

In order to receive the full benefit of a \$5,000 adoption tax credit in the current year, a family must have sufficient income to have \$5,000 of tax liability. Even for a family with no other children, using the standard deduction, and using only the \$500 per child tax credit, a family must have income of \$52,400 (in tax year 2000) to have \$5,000 of tax liability.¹ Having any other nonrefundable tax credits or having other dependents further increases the minimum required income. (The required income levels for three and four person families with and without child and dependent care credits are shown in Table 5-1.) The relatively high levels of income at which taxpayers have sufficient liability to claim the full credit in the initial year together with the phaseout of the tax credit affect the distribution of benefits. Taxpayers with AGIs of \$50,000 to \$75,000 represented 35 percent of all taxpayers claiming a credit or exclusion in 1998 and had 36 percent of adoption expenses and 48 percent of tax benefits.

¹ Required incomes in future years would be higher due to the annual indexing of personal exemptions, the standard deduction, and tax bracket widths for the effects of inflation.

Table 5 - 1

**Minimum Income Required to Fully Utilize the Maximum Amount
Of the Adoption Tax Credit for One Adopted Child
(Married Couple Filing Joint Tax Return, 2000)**

Situation	\$5,000 Adoption Credit		\$6,000 Adoption Credit ¹	
	Used In One Year	Used Over Six Years	Used In One Year	Used Over Six Years
<u>No Other Children</u>				
No Child Care Credit	52,400	24,650	59,100	25,750
\$480 Child Care Credit	55,600	27,850	61,050	28,950
<u>One Other Child</u>				
No Child Care Credit	58,550	30,750	63,900	31,900
\$480 Child Care Credit	61,750	34,000	65,600	35,100
\$960 Child Care Credit	63,750	37,150	67,350	38,300

US Treasury Department
Office of Tax Analysis

September 2000

¹ The \$6,000 maximum credit is only for adoptions of children with special needs.

Note: Assumes taxpayers use the standard deduction, the \$500 per child tax credit, and the child and dependent care credit, as specified in the table.

Permitting unused adoption tax credits to be carried forward and used against future tax liability for up to five additional years widens the income range over which the adoption tax credit is beneficial, but at some point during the carryover period, the family must have income tax liability against which the credit can be taken. Inability to obtain full benefit from the tax credit in the current year may result in the potential adopting family not having the resources to pay adoption expenses as they occur and may discourage some families from undertaking an adoption. A three-person family that uses the standard deduction and the \$500 child credit (and has no other tax credits) requires income of at least \$24,650 in 2000 (and slightly more in each of the five successive years) in order to fully utilize a \$5,000 adoption credit over the five-year carryforward period (see Table 5-1).

Situations in Which Adoption Tax Benefits Are Not Available

In addition to adoptions for which tax benefits are reduced or are not available because of the incomes of the adopting parents, benefits are not available for the over 50,000 stepparent adoptions that are estimated to occur each year. Stepparent adoptions do incur some of the same costs as other adoptions, such as legal fees. Particularly for lower-income families, such costs could be a barrier to adoption.

Especially for adoptions of children with special needs, adopting families may be concerned about incurring financial burdens in addition to the initial costs of adoption and the normal costs of rearing a child. Such extra costs may be, or may be seen to be, a sufficiently large potential burden to present a barrier to adoption. However, some costs, including some normal costs of raising a child, are covered for most adoptive children with special needs through expenditure programs, and some of the necessary services may be provided directly. Medicaid services also are available to many children with special needs.²

Benefits by Type of Adoption

The 30,100 adoptions of non-foreign, non-special needs children for which tax benefits were claimed in 1998 represented 63 percent of all adoptions claiming tax benefits and received 56 percent of adoption tax benefits used to reduce 1998 tax.

In 1998, 29 percent of the adoptions for which tax benefits were received were for adoptions of foreign children, and 37 percent of total tax benefits were for these adoptions. Average adoption expenses are significantly higher for adoptions of foreign children, and expenses exceed levels eligible for maximum adoption tax credits for 68 percent of such adoptions. Although the number of adoptions of foreign children has been increasing rapidly, the increase began prior to enactment of the adoption tax benefits. By offsetting about half of the average total cost of the adoption of a foreign child, the adoption tax benefits may encourage additional adoptions of foreign children.

² See Appendix B for a brief description of adoption assistance programs under Title IV-E of the Social Security Act.

Only 8 percent of the adoptions for which any adoption tax benefits were taken in 1998 were of children with special needs. The average expense for the adoptions of children with special needs for which a tax benefit was claimed was lower than for other types of adoptions, so tax benefits for special needs adoptions were only 7 percent of the total tax benefits. The 4,600 special needs adoptions for which any tax benefits were claimed in 1998 represented 15 percent of the estimated total number of special needs adoptions. Presumably, expenditure programs paid or reimbursed the qualified adoption expenses for the other 85 percent of special needs adoptions.

Relationship of Reported Expenses to the Maximum Credit or Exclusion

For 1998, qualified adoption expenses were less than the maximum amounts eligible for either the adoption tax credit for 64 percent of the adoptions of non-foreign, non-special needs children and were within \$1,000 of those limits for an additional 14 percent of adoptions. Taxpayers reporting adoptions of foreign children had expenses within the limits in 21 percent of cases and were above the limit by no more than \$1,000 in an additional 18 percent of adoptions. The qualified expenses of families adopting children with special needs were less than the special \$6,000 limit in 76 percent of such adoptions for which the tax credit was reported. When the total number of adoptions of children with special needs is considered, including the 85 percent that do not receive adoption tax benefits (most likely because of direct reimbursements under other programs), only about 4 percent of families adopting children with special needs report qualified adoption expenses of more than the amounts eligible for tax benefits. To the extent that the initial costs of adoption may be a barrier to the adoption of children with special needs, the current tax benefits, together with the payments or reimbursements under combined State and Federal programs, seem to have provided a comprehensive solution, covering all such qualified expenses in the vast majority of cases.

Overall, 47 percent of taxpayers using the tax credit or exclusion, or both, for 1998 reported expenses exceeding \$5,000 per tax return. However, the percentage exceeding \$5,000 increased with income, ranging from 32 percent for families with incomes under \$25,000, to 49 percent for families with incomes between \$50,000 and \$75,000, and to 68 percent for families with incomes over \$100,000. (Note that income eligibility ends at \$115,000 of modified adjusted gross income.)

Exclusion for Employer Paid or Reimbursed Adoption Benefits

The income exclusion for employer-paid or employer-reimbursed adoption expenses is used for only one-tenth as many adoptions as is the adoption tax credit, and less than 2 percent of total tax benefits for adoption are from the exclusion. Having two separate tax benefits for adoption adds some complexity to the tax system. The availability of two separate tax benefits does increase the maximum possible tax benefit for adoption, but only for families whose employers provide such benefits.³ According to a recent survey, 10 percent of full-time

³ Although employer reimbursements above the \$5,000 (or \$6,000) limit do not qualify for either the exclusion or the tax credit, any employee expenditures which are not reimbursed by the employer are qualified expenses for purposes of the tax credit. Thus, with respect to a single adoption, a worker could receive tax benefits

employees in medium and large establishments are offered an adoption benefit.⁴ An adoption credit may be of relatively little immediate value to moderate income families; employer reimbursement of expenses in the current year may be more valuable to these families. The exclusion from income tax may encourage more employers to offer this benefit.⁵

GENERAL ISSUES REGARDING TAX BENEFITS

Behavioral Effects. As is true for most other tax benefits for individuals, the adoption tax benefits are available to all taxpayers who meet the criteria, regardless of whether their activity (in this case, adoption) is induced by the tax benefits or would have occurred in any event. The data do not permit a determination of the extent to which tax benefits for adoption may have increased the number of adoptions.

Because the number of healthy domestic infants available for adoption is less than the number of families seeking to adopt such infants, tax benefits cannot increase the number of such adoptions.⁶ Tax benefits, however, may help increase the number of adoptions of children with special needs and foreign children, since the numbers of both of those categories of children available for adoption exceeds the number of current adoptions. By reducing the costs of adoptions of foreign children, the tax benefits tend to increase the number of adoptions of foreign children. The impact, however, on the number of adoptions of children with special needs is more complicated. There are two offsetting effects. The reduction in the cost of adoption for children with special needs for whom the entire adoption cost would not be reimbursed fully by public programs tends to increase the number adoptions of such children. Offsetting that tendency is that fact that the adoption tax benefits generally reduce the cost of adopting a foreign child compared to the cost of adopting a child with special needs whose adoption costs are reimbursed by government programs. The net impact of these two opposing effects on the number of adoptions of children with special needs is ambiguous. Although the number of adoptions of children with special needs has increased in recent years, it cannot be determined whether the number is larger or smaller than it would have been in the absence of the current tax provisions for adoption.

Changes in the after-tax cost may have encouraged particular taxpayers, especially those with moderate incomes, to undertake the adoptions of children who would have been adopted in any event. Neither tax nor other currently available data permit an evaluation of the extent to

for up to \$10,000 of adoption expenses (up to \$12,000 for the adoption of a child with special needs). Although the tax benefits from the employer exclusion may be less than from the tax credit for similar amounts of qualified expenses, the combination of the employer payment plus the benefit of the exclusion generally approximates the value of the tax credit.

⁴ United States Department of Labor, *Employee Benefits in Medium and Large Private Establishments*, 1997, p. 8.

⁵ Employer reimbursements that are excludable for income tax purposes are subject to Social Security and Medicare taxes.

⁶ There is no reason to believe that the availability of tax benefits for adoptive parents increases the number of healthy, domestic infants available for adoption.

which tax benefits may have affected the decisions of specific individuals who succeed in adopting children.

100 Percent Tax Credits. Generally, tax credits are some percentage, but less than 100 percent, of a taxpayer's qualified expense. Tax credits for 100 percent of an expense are unusual, but not unprecedented, in the Federal income tax system.⁷ A 100 percent tax credit means that qualified expenses are fully paid by the government. As a result, adopting families whose expenses do not exceed the statutory maximum and who can make full use of the tax credit in the current year do not have a strong financial incentive to control their expenses or to resist fee increases by service providers and intermediaries. Financial incentives to control expenses are lessened, but not eliminated, for taxpayers whose expenses are not fully covered by a tax credit or employer reimbursement. To the extent that the tax benefits permit third parties to raise fees, those third parties, rather than the adopting families, are the beneficiaries of the adoption tax provisions.

Tax Benefits versus Direct Expenditures. When the value of a 100 percent tax credit can be used fully in the current year, that credit provides the same benefits to the taxpayer as would a direct government expenditure program that paid or reimbursed taxpayers' expenses. Providing benefits via the income tax system may eliminate the need for interaction with another government agency to obtain the reimbursement and may reduce the duplication of information, especially information about income, provided to the government. However, with fewer limitations and conditions, tax benefits for adoption may be payable to a larger number of adopting families. As a result, if the same level of benefits is provided for each adoption, the tax program will have a greater total cost. Alternatively, for the same level of aggregate expenditures, the tax program may not achieve the same increase in the number of adoptions that would be achievable under an expenditure program of similar cost.

COMPLEXITY AND TAXPAYER BURDEN

In order to claim the benefits of the adoption tax credit or the employer exclusion, taxpayers must complete and file IRS Form 8839 as part of their annual income tax return. Form 8839 is two pages long and its instructions are four pages long and include several "worksheets" and several complicated instructions which provide information on how to proceed in different situations.⁸ Before completing the tax form, taxpayers need to gather information about the expenses incurred in the adoption process, determine which expenses are "qualifying," and determine the year in which those qualifying expenses may be claimed for income tax purposes.

Form 8839 is one of the more complicated income tax forms that middle- and lower-income taxpayers need to use. Even if the computational complexity is handled for the taxpayer

⁷ The income tax credit for the employer share of social security and Medicare taxes paid on the tip income of certain classes of tipped employees is an example of another 100 percent income tax credit. The credit is limited to the taxpayer's income tax liability (is not refundable), and unused credits may not be carried forward to future years. See section 45B of the Internal Revenue Code of 1986.

⁸ A copy of Form 8839 for 1998 and its instructions is contained in Appendix A.

by computerized tax preparation software, complexity remains from the determination of qualifying expenses and from dealing with concepts that are unfamiliar to most taxpayers. For many users, some or all of the tax credit may have to be carried forward to, and considered for use in, future years. Moreover, taxpayer burden is compounded by the fact that Form 8839 is generally used by a given taxpayer for only one or two adoptions, so that the taxpayer's burden is not reduced through experience from repetitive use.

The extra tax return completion complexity and burdens imposed on taxpayers who receive these two benefits is directly related to the statutory elements of the provisions and is the minimal amount essential to the computation of the benefits and to alert the IRS that benefits are being claimed. The tax filing process does not require taxpayers to submit either details of their expenses by category or documents verifying the actual expenses. To the extent that IRS chooses to request such information from some taxpayers, taxpayer burdens will increase for the affected taxpayers.

In order to have the funds to pay adoption expenses, some adopting families may need to obtain their adoption tax benefits currently through reduced income tax withholding on wages and salaries. To accomplish that, the family's worker or workers will face the additional complexity and burden of determining, and applying for, the appropriate downward adjustment to their withholding in the first year followed by a reversal of that adjustment in the following year (or the year after they have used all of their tax credit carryforwards).

ADMINISTRATIVE ISSUES

Providing benefits for adoption through the Federal income tax system rather than through a direct outlay program results in some administrative benefits as well as some administrative burdens.

The prime administrative benefit for taxpayers is eliminating the need to deal with a separate government agency and to file separate forms to obtain payment of, or reimbursement for, adoption-related expenses. To the extent that benefits may depend on family income, use of the Federal tax system reduces the need for families to supply income information that has already been provided to the IRS to another government agency.⁹ Dealing with IRS as part of the income tax filing process also eliminates the need for a separate government payment; the adoption tax benefits are provided simply through a reduction in the payment the taxpayer would otherwise have to make or an increase in the tax refund to the taxpayer. However, providing benefits through the tax system adds somewhat to the complexity of the tax system for all taxpayers.¹⁰

⁹ Reimbursements for the expenses of the adoptions of children with special needs are not based on the income of the adopting family.

¹⁰ The vast majority of taxpayers without adoption expenses have only a slight additional burden imposed from having to determine that the tax form line for the adoption credit does not apply to them. Taxpayers with adoption expenses which may only be considered in a future year and taxpayers with income exceeding the income

The possibility of having IRS ask to verify adoption expenses and computations produces uncertainty and risk for taxpayers when adoption benefits are provided through the tax system. When IRS does examine the adoption-related portion of an income tax return, taxpayers incur additional burden. Because of the size of the adoption tax benefit claimed on any given tax form and the income levels of adoptive families reporting tax benefits, IRS examination rates for returns reporting adoption tax benefits generally will be low. Moreover, even when claims for adoption tax benefits are subject to verification, because the provisions apply to such a tiny fraction of taxpayers (under 0.05 percent), examiners are unlikely to have great expertise in reviewing the eligibility of various types of expenditures. The low examination rate and the lack of expertise of IRS examiners may encourage taxpayers to overstate expenses and include non-qualified expenses. Such mis-reporting would reduce revenue and undermine confidence in the income tax system.

In some instances, low examination rates could hurt taxpayers. Omissions of legitimate adoption expenses are less likely to be discovered, to the adopting family's disadvantage. Specialized reviews of claims for adoption reimbursement submitted under a direct outlay program would be more likely to notice such omissions. Even IRS examinations that could help taxpayers claim additional adoption benefits may place taxpayers under stress. Because the adoption benefits are part of the tax system, examinations must be performed under the rules for tax examinations, which can be both burdensome and stressful for taxpayers. And, if an examination uncovers errors or some claimed expenses are determined to be ineligible for the tax credit or exclusion, taxpayers will be subject to interest and, possibly, penalties in addition to having to pay back the tax benefits already received.

related phaseout have greater additional burdens due to the data collection and calculations they are likely to perform before they realize that they not are entitled to benefits in the current year.

Appendix A

INCOME TAX FORM AND INSTRUCTIONS FOR ADOPTION BENEFITS FOR 1998

Qualified Adoption ExpensesDepartment of the Treasury
Internal Revenue Service

▶ Attach to Form 1040 or 1040A.

▶ See separate instructions.

Name(s) shown on return

Your social security number

Before you begin, you need to understand the following terms. See **Definitions** on page 1 of the instructions.• **Eligible Child**• **Employer-Provided Adoption Benefits**• **Qualified Adoption Expenses****Part I Information About Your Eligible Child or Children**—You must complete this part. See the instructions for details, including what to do if you need more space.

1	(a) Child's name First Last		(b) Child's year of birth	Check if child was—			(f) Child's identifying number
				(c) born before 1980 and was disabled	(d) a child with special needs	(e) a foreign child	
Child 1			19	☐	☐	☐	
Child 2			19	☐	☐	☐	

Caution: If you received **employer-provided adoption benefits**, complete **Part III** on the back next.**Part II Adoption Credit****Caution:** If the eligible child is a foreign child, you can take the credit only if the adoption was final in or before 1998.

	Child 1	Child 2	
2 Enter \$5,000 (\$6,000 for a child with special needs)	2		
3 Did you file a 1997 Form 8839? No. Enter -0- Yes. See the instructions for the amount to enter.	3		
4 Subtract line 3 from line 2	4		
5 Enter the total qualified adoption expenses you paid in: • 1997 if the adoption was not final by the end of 1998. • 1997 and 1998 if the adoption was final in 1998. • 1998 if the adoption was final before 1998.	5		
6 Enter the smaller of line 4 or line 5	6		
7 Add the amounts on line 6. If zero, skip lines 8-11, enter -0- on line 12, and go to line 13	7		
8 Enter your modified adjusted gross income (see instructions)	8		
9 If line 8 is \$75,000 or less, skip lines 9 and 10 and enter -0- on line 11. If line 8 is over \$75,000, subtract \$75,000 from the amount on line 8	9		
10 Divide line 9 by \$40,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than "1.000"	10		
11 Multiply line 7 by line 10	11		
12 Subtract line 11 from line 7	12		
13 Enter any credit carryforward from 1997 (line 11 of your 1997 Form 8839)	13		
14 Add lines 12 and 13. Then, see the instructions for the amount of credit to enter on Form 1040, line 45, or Form 1040A, line 30 Note: If the credit you enter on Form 1040, line 45, or Form 1040A, line 30, is equal to the total of lines 12 and 13, stop ; you do not have any credit to carry forward to 1999.	14		
15 1997 credit carryforward to 1999 (see instructions)	15		
16 1998 credit carryforward to 1999 (see instructions)	16		

Part III Employer-Provided Adoption Benefits

Caution: If the eligible child is a foreign child, see **Special Rules** in the instructions for line 1, column (e), before completing this part.

		Child 1	Child 2	
17 Enter \$5,000 (\$6,000 for a child with special needs)	17			
18 Did you receive employer-provided adoption benefits for 1997? No. Enter -0- Yes. See the instructions for the amount to enter. }	18			
19 Subtract line 18 from line 17. If zero or less, enter -0-	19			
20 Enter the total amount of your employer-provided adoption benefits received in 1998. This amount should be shown in box 13 of your 1998 W-2 form(s) with code T	20			
21 Add the amounts on line 20	21			
22 Enter the smaller of line 19 or line 20	22			
23 Add the amounts on line 22. If zero, skip lines 24-28, enter -0- on line 29, and go to line 30	23			
24 Enter your modified adjusted gross income (from the worksheet in the instructions)	24			
25 If line 24 is \$75,000 or less, skip lines 25-27 and enter the amount from line 23 on line 28. If line 24 is over \$75,000, subtract \$75,000 from the amount on line 24	25			
26 Divide line 25 by \$40,000. Enter the result as a decimal (rounded to at least three places). Do not enter more than "1.000"	26			
27 Multiply line 23 by line 26	27			
28 Subtract line 27 from line 23	28			
29 Excluded benefits. Enter the smaller of line 23 or line 28	29			
30 Taxable benefits. Subtract line 29 from line 21. Also, include this amount on Form 1040, line 7, or Form 1040A, line 7. On the line next to line 7, enter "AB"	30			

If the total adoption expenses you paid in 1998 were not fully reimbursed by your employer **AND** the adoption was final in or before 1998, you may be able to claim the adoption credit in Part II on the front of this form.





Instructions for Form 8839

Qualified Adoption Expenses

General Instructions

Purpose of Form

You may be able to take the adoption credit if you paid qualified adoption expenses in:

- 1997, or
- 1998 and the adoption was final in or before 1998.

Use Form 8839 to figure the amount of your credit.

If you received any **employer-provided adoption benefits** for 1998, you **MUST** use Form 8839 to figure the amount, if any, of benefits you may exclude from your income on line 7 of Form 1040 or Form 1040A. You need to complete Part III of Form 8839 before you can figure the credit, if any, in Part II.

Caution: *Special rules apply if you paid expenses or received benefits in connection with the adoption of an eligible foreign child. See the instructions for line 1, column (e), for details.*

Definitions

Eligible Child

An eligible child is:

- Any child **under age 18**. If the child turned 18 during the year, the child is an eligible child for the part of the year he or she was under age 18.
- Any disabled person not able to care for himself or herself.

Caution: *If you and another person adopted or tried to adopt an eligible child, see the instructions for line 2 (or line 17 if applicable) before you enter an amount on that line.*

Employer-Provided Adoption Benefits

These are amounts your employer paid directly to either you or a third party for qualified adoption expenses. Your salary may have been reduced to pay for these benefits. Employer-provided adoption benefits should be shown in box 13 of your 1998 W-2 form(s) with code T.

Qualified Adoption Expenses

For purposes of the credit, these are the reasonable and necessary expenses directly related to, and for the principal purpose of, the legal adoption of an eligible child.

Qualified adoption expenses include:

- Adoption fees.
- Attorney fees.
- Court costs.
- Travel expenses (including meals and lodging) while away from home.

Qualified adoption expenses **do not include** expenses:

- For which you received funds under any state, local, or Federal program.

- That violate state or Federal law.
- For carrying out a surrogate parenting arrangement.
- For the adoption of your spouse's child.
- Paid or reimbursed by your employer or any other person or organization.
- Paid before 1997.
- Allowed as a credit or deduction under any other provision of Federal income tax law.

Who May Take the Adoption Credit or Exclude Employer-Provided Adoption Benefits?

You may take the credit or exclusion if **all three** of the following apply.

1. Your filing status is Single, Head of household, Qualifying widow(er) with dependent child, or Married filing jointly. However, if your filing status is Married filing separately, see **Married Persons Filing Separate Returns** below.

2. Your modified AGI (adjusted gross income) is less than \$115,000. To figure your modified AGI, see the instructions for line 8 (for the credit) or line 24 (for the exclusion).

3. You report the required information about the eligible child on line 1.

Caution: *Special rules apply if the eligible child is a foreign child. See the instructions for line 1, column (e), for details.*

Married Persons Filing Separate Returns

You may take the credit or exclusion if you meet items **2** and **3** listed above and **all** of the following apply.

- You lived apart from your spouse during the last 6 months of 1998.
- The eligible child lived in your home more than half of 1998.
- You provided over half the cost of keeping up your home.

Line Instructions

Line 1

Complete all columns that apply to the eligible child you adopted or tried to adopt. If you do not give correct or complete information, your credit (and any applicable exclusion) may be disallowed.

If you cannot give complete information because you tried to adopt an eligible child but were not successful or the adoption was not final by the end of 1998, complete the entries you can on line 1. Enter "See Page 2" in the columns for which you do not have the information. Then, on the bottom of page 2, enter the name and address of

any agency or agent (such as an attorney) that assisted in the attempted adoption.

Child 1 or Child 2

If you tried to adopt **one** eligible child and you made more than one attempt to do so, combine the amounts you spent and enter the total on the "Child 1" line. **Do not** report the additional attempt(s) on the "Child 2" line. Complete the "Child 2" line **only** if you adopted or tried to adopt **two** eligible children. If you adopted or tried to adopt more than two eligible children, see **More Than Two Eligible Children** on this page.

Caution: If you filed a 1997 Form 8839 in connection with this adoption, enter your 1998 information on the same line (Child 1 or Child 2) that you used for 1997.

Column (a)

Enter the eligible child's name.

Column (c)

Check this box if the child was born **before 1980** and was disabled. A child is **disabled** if the child is physically or mentally unable to care for himself or herself.

Column (d)

Check this box if the child was also a child with special needs. A child is a **child with special needs** if both of the following apply.

1. The child was a citizen or resident of the United States or its possessions at the time the adoption process began.

2. A state (including the District of Columbia) has determined that the child cannot or should not be returned to his or her parents' home and probably will not be adopted unless assistance is provided to the adoptive parents. Factors used by states to make this determination include:

- The child's ethnic background and age,
- Whether the child is a member of a minority or sibling group, and
- Whether the child has a medical condition or a physical, mental, or emotional handicap.

Caution: If you check this box, be sure to keep evidence of the state's determination in your records.

Column (e)

Check this box if the child was a foreign child. A child is a **foreign child** if he or she was **not** a citizen or resident of the United States or its possessions at the time the adoption process began.

Special Rules. If you paid **qualified adoption expenses** in connection with the adoption of a foreign child and the adoption was **not final** by the end of 1998, you **cannot** use those expenses to figure your 1998 adoption credit. **Do not** include them on line 5 of Form 8839. If the adoption becomes final in 1999, you may be able to take a credit for those expenses on your 1999 return.

If you received **employer-provided adoption benefits** in 1998 in connection with the adoption of a foreign child and the adoption was not final by the end of 1998, you must include the benefits in the total entered on Form 1040, or Form 1040A, line 7. Also, enter "AB" (adoption benefits) next to line 7. If the adoption becomes final in 1999, you may be able to exclude the benefits from your 1999 income.

Exclusion of 1997 benefits. If you received employer-provided adoption benefits in 1997 in connection with the adoption of a foreign child **and** the adoption was final in 1998, you may be able to exclude part or all of those benefits from your 1998 income. To find out if you can, complete Part III of Form 8839 through line 29. However, on line 18, enter zero. On line 20, enter the total amount of employer-provided adoption benefits received in 1997 and 1998. On the dotted line next to line 20, enter "97 AB" and the amount of 1997 benefits received. Then, use the worksheet below to figure the amount of any 1997 benefits you may exclude and the amount, if any, to enter on line 30.

Exclusion of 1997 Benefits Worksheet (keep for your records)

1. Is the amount on your 1998 Form 8839, line 29, less than the amount on line 21?
No. Go to line 4.
Yes. Subtract line 29 from line 21 1. _____
2. Enter the 1997 employer-provided adoption benefits included on line 20 for the child..... 2. _____
3. **Taxable benefits.** Subtract line 2 from line 1. Enter the result, but not less than zero, here and on Form 8839, line 30. Also, include this amount, if more than zero, on line 7 of Form 1040 or Form 1040A. On the line next to line 7, enter "AB"..... 3. _____
4. Enter the amount from Form 8839, line 29. 4. _____
5. Enter the 1998 employer-provided adoption benefits included on line 20 for the child..... 5. _____

Note: If line 5 is equal to or more than line 4, **stop here; you cannot exclude any of your 1997 benefits.**

6. **1997 excluded benefits.** Subtract line 5 from line 4 6. _____

Next: Figure the total you would enter on line 7 of Form 1040 or Form 1040A **before** you exclude the amount from line 6 above. Then, subtract the amount from line 6 above from that total. Enter the result on line 7 of Form 1040 or Form 1040A. On the line next to line 7, enter "97 AB" and the amount from line 6 above.

Column (f)

Enter the child's identifying number. This may be a social security number (SSN), an adoption taxpayer identification number (ATIN), or an individual taxpayer identification number (ITIN).

To get an —

- SSN, use **Form SS-5**.
- ATIN, use **Form W-7A**.
- ITIN, use **Form W-7**.

More Than Two Eligible Children

If you adopted or tried to adopt more than two eligible children, fill in and attach as many Forms 8839 as you need to list them. Also, enter "See Attached" to the right of the **Caution** below line 1.

For **Part II**, fill in lines 2 through 6 for each child. But fill in lines 7 through 16 on only one Form 8839. The amount on line 7 of that Form 8839 should be the combined total of the amounts on line 6 of all the Forms 8839.

For **Part III**, fill in lines 17 through 20 and 22 for each child. But fill in lines 21 and 23 through 30 on only one Form 8839. The amount on line 21 of that Form 8839 should be the combined total of the amounts on line 20 of all the Forms 8839, and the amount on line 23 should be the combined total of the amounts on line 22.

Line 2

Enter \$5,000 (\$6,000 if the child was also a child with special needs). If you and another person each paid qualified adoption expenses to adopt the same child, the \$5,000 limit (or \$6,000 if applicable) must be divided between the two of you in any way you both agree. If the other person is your spouse and you are filing a joint return, this rule does not apply.

Line 3

If you filed a 1997 Form 8839 in connection with the adoption of the child, enter the amount shown on line 4 of that form for the child. If you filed a 1997 Form 8839 in connection with the adoption of another child, enter zero.

Line 8

Use the following chart to find your modified AGI (adjusted gross income) to enter on line 8.

IF you file...	THEN enter on line 8 the amount from...
Form 1040	Form 1040, line 34, increased by the total of any: ● Exclusion of income from Puerto Rico, and ● Amount from— ● Form 2555, lines 43 and 48. ● Form 2555-EZ, line 18. ● Form 4563, line 15.
Form 1040A	Form 1040A, line 19

Line 14

The amount of your credit may be limited. To find out if it is, complete the **Credit Limit Worksheet** on this page.

Credit Limit Worksheet—Line 14 (keep for your records)

Caution: Form 1040 filers, if you are claiming the mortgage interest credit (see the instructions for Form 1040, line 47), complete **Form 8396** before you begin.

1. **Form 1040 filers**, enter the amount from Form 1040, line 40, minus the total of any amounts on lines 41 through 44, and any mortgage interest credit from Form 8396, line 11. **Form 1040A filers**, enter the amount from Form 1040A, line 25, minus the total of any amounts on lines 26 through 29 1. _____
2. Enter the amount from Form 8839, line 14 2. _____
3. Enter the **smaller** of line 1 or line 2. Also, enter this amount on Form 1040, line 45, or Form 1040A, line 30. If line 1 is the smaller amount, replace the amount on Form 8839, line 14, with that new amount... 3. _____

Lines 15 and 16

If you had to replace the amount on line 14 of Form 8839 with a new amount from the **Credit Limit Worksheet**, you have an unused credit to carry forward to the next 5 years or until used, whichever comes first. Use the worksheet below to figure the amount of your credit carryforward. If you have any unused credit to carry forward to 1999, be sure you keep a copy of your 1998 Form 8839. You will need it to figure your credit for 1999.

Credit Carryforward Worksheet—Lines 15 and 16 (keep for your records)

1. Enter the amount from line 2 of the Credit Limit Worksheet above 1. _____
 2. Enter the new amount from Form 8839, line 14 2. _____
 3. Subtract line 2 from line 1 3. _____
 4. Do you have a credit carryforward from 1997?
 - No. Stop here;** enter -0- on Form 8839, line 15, and enter the amount from line 3 above on line 16.
 - Yes.** Enter the amount from Form 8839, line 13 4. _____
 5. If line 4 above is equal to or less than line 2, enter -0-. If line 4 is more than line 2, subtract line 2 from line 4 5. _____
 6. Subtract line 5 from line 3. If the result is zero, enter -0- 6. _____
- Next:** Enter the amount, if more than zero, from line 5 above on Form 8839, line 15. Then, enter the amount, if more than zero, from line 6 above on Form 8839, line 16.

Line 17

Enter \$5,000 (\$6,000 if the child was also a child with special needs). If you and another person each received employer-provided adoption benefits in connection with the adoption of the same eligible child, the \$5,000 limit (or \$6,000 if applicable) must be divided between the two of you in any way you both agree. If the other person is your spouse and you are filing a joint return, this rule does not apply.

Line 18

If you received employer-provided adoption benefits in 1997 in connection with the adoption of the child, enter the amount shown on line 15 of your 1997 Form 8839 for the child. If the 1997 benefits were received in connection with the adoption of a different child, enter zero on line 18.

Caution: If the 1997 benefits were received in connection with the adoption of a foreign child and the adoption was final in 1998, see **Exclusion of 1997 benefits** on page 2.

Line 24

Follow these steps before you fill in the line 24 worksheet on this page.

Step	Action						
1	Figure the amount you would enter on line 7 of Form 1040 or 1040A if you could exclude the total amount on Form 8839, line 21.						
2	If you received social security benefits, use Pub. 915 to figure the taxable amount of your benefits.						
3	If you made contributions to a traditional IRA for 1998 and you were covered by a retirement plan at work or through self-employment, use Pub. 590 to figure your IRA deduction.						
4	If you file Form 1040, figure any amount to be entered on the dotted line next to line 32.						
5	Complete the following lines on your return if they apply: <table><tr><th>IF you file...</th><th>THEN complete...</th></tr><tr><td>Form 1040</td><td>Lines 8a, 8b, 9 through 21, 23, and 25 through 31a</td></tr><tr><td>Form 1040A</td><td>Lines 8a, 8b, 9 through 13b, and 15</td></tr></table>	IF you file...	THEN complete...	Form 1040	Lines 8a, 8b, 9 through 21, 23, and 25 through 31a	Form 1040A	Lines 8a, 8b, 9 through 13b, and 15
IF you file...	THEN complete...						
Form 1040	Lines 8a, 8b, 9 through 21, 23, and 25 through 31a						
Form 1040A	Lines 8a, 8b, 9 through 13b, and 15						

Modified AGI Worksheet—Line 24 (keep for your records)

1. Enter the amount you would enter on line 7 of Form 1040 or 1040A if you could exclude the total amount on Form 8839, line 21 1. _____
2. Enter the amount from Form 8839, line 21 2. _____
3. **Form 1040 filers**, add the amounts on lines 8a, 9 through 14, 15b, 16b, 17 through 19, 20b, and 21. Enter the total. **Form 1040A filers**, add the amounts on lines 8a, 9, 10b, 11b, 12, and 13b. Enter the total..... 3. _____
4. Add lines 1, 2, and 3..... 4. _____
5. **Form 1040 filers**, enter the total of the amounts from lines 23 and 25 through 31a, plus any amount entered on the dotted line next to line 32. **Form 1040A filers**, enter the amount from line 15..... 5. _____
6. Subtract line 5 from line 4..... 6. _____

Form 1040 filers, increase the amount on line 6 above by the total of the following amounts. Enter the total on Form 8839, line 24.

- Any amount from **Form 2555**, lines 43 and 48; **Form 2555-EZ**, line 18; and **Form 4563**, line 15, and
- Any exclusion of income from Puerto Rico.

Form 1040A filers, enter on Form 8839, line 24, the amount from line 6 above.

Caution: For purposes of the credit, your modified AGI may be different. If you are taking the credit, be sure to read the instructions for line 8 on page 3 before you enter an amount on that line.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 46 min.; **Learning about the law or the form**, 20 min.; **Preparing the form**, 1 hr., 31 min.; and **Copying, assembling, and sending the form to the IRS**, 35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for Form 1040 or 1040A.

Appendix B

FEDERAL EXPENDITURE PROGRAMS FOR ADOPTION

The Federal programs promoting adoption are administered through direct expenditure programs and tax benefits. This appendix provides a brief overview of the major expenditure programs. Federal expenditure programs in support of adoption are focused on children in the child welfare system, generally children who are or who have been in foster care. Federal outlays for non-tax adoption assistance programs, both initial adoption assistance and continuing support, were \$707 million in Fiscal Year 1998, \$839 million in Fiscal Year 1999, and are estimated to be \$980 million in Fiscal year 2000.

TITLE IV-E ADOPTION ASSISTANCE PROGRAM

The Federal program to assist adoption was established by the Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272). The program is intended to assure that families adopting children with special needs from the public child welfare system would have the necessary services and funding to meet the children's significant and varied needs. The Title IV-E program provides funds to states to assist in paying maintenance costs for adopted children who are eligible for Temporary Assistance to Needy Families (TANF) or Supplemental Security Income (SSI) and who are children with special needs as defined by the particular state.¹ Funds are also used for the administrative costs of managing the program and training staff. The goal of this program is to facilitate the placement of hard to place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care. Federal funds for continuing assistance are matched by state funds at the same rate as Medicaid. Federal funds for one-time adoption expenses are matched by state funds at a 50% rate. For 1998, 31,115 of the 36,000 children adopted from the public foster care system in that year were receiving continuing support.² Additional data on children in foster care are provided in Chapter IV.

Each state must establish a Title IV-E adoption assistance program that provides to families adopting eligible children:

- Monthly maintenance payments;
- Medicaid coverage;
- Certain social services; and
- Reimbursement of up to \$2,000 for nonrecurring (one-time) adoption expenses.

¹ Children with special needs are generally children who are older, have physical or mental disabilities, and/or have siblings who also need adoptive parents. In some states, racial characteristics may also be a criterion for special needs. The exact definition of special needs children depends on state law. Certain children who are determined to have special needs by a state are eligible for support and adoption assistance from programs financed solely by state funds.

² The AFCARS Report, Interim estimates for Fiscal Year 1998 –2000, U.S. Department of Health and Human Services, Administration for Children and Families.

TITLE IV-B, SUBPART 1, CHILD WELFARE SERVICES PROGRAM

The Title IV-B, subpart 1, Child Welfare Services Program provides funding for state public welfare agencies to improve their child welfare services with the goal of keeping families together. State services include preventive intervention, so that, if possible, children will not have to be removed from their homes; services to develop alternative placements such as foster care or adoption, if children cannot remain at home; and reunification services so that, if possible, children who have been removed from their homes can return home.

TITLE IV-B, SUBPART 2, PROMOTING SAFE AND STABLE FAMILIES PROGRAM

The Title IV-B, subpart 2, Promoting Safe and Stable Families program is a more restricted program which provides funds to states for family support, family preservation, time-limited family reunification, and adoption promotion and support.

ADOPTION OPPORTUNITIES GRANT PROGRAM

Funds from the Adoption Opportunities Grant Program provide support for demonstration projects that facilitate the elimination of barriers to adoption and provide permanent homes for children who would benefit from adoption, particularly children with special needs. The Administration on Children, Youth and Families in the Department of Health and Human Services expects to award approximately 110 new competitive grants in fiscal year 2000 with funding at approximately \$11 million for Adoption Opportunities grants.

ADMINISTRATION INITIATIVES

On December 14, 1996, President Clinton issued an Executive Memorandum that directed the Secretary of Health and Human Services to recommend strategies to accelerate the movement of children from foster care into permanent homes. The goal was to double the number of adoptions and other permanent placements from the public foster care system by the year 2002. The Executive Memorandum also called for continued aggressive implementation of the Multi-Ethnic Placement Act of 1994, as amended (MEPA), Public Law 103-382 and Section 1808 of Public Law 104-188, Removal of Barriers to Interethnic Adoption, and for the development and dissemination of information about the new adoption tax credits and other adoption benefits.

Strategies for implementing that Presidential directive were presented in *Adoption 2002: A Response to the Presidential Executive Memorandum on Adoption*.³ *A Response* is a blueprint for Federal leadership in adoption for children in the public child welfare system. Adoption 2002 outlined an agenda to overcome barriers to the placement of children from foster care to permanent homes and barriers to accelerating the path to permanent placement for all children waiting in the public child welfare system.

³ U.S. Department of Health and Human Services, Administration for Children and Families, February 14, 1997.

On November 24, 1998, President Clinton issued an Executive Memorandum on "Using the Internet to Increase Adoptions," which instructed the Department of Health and Human Services to expand use of the Internet to share information about children who are legally free for adoption in order to shorten the time needed to find them adoptive families.

ADOPTION AND SAFE FAMILIES ACT OF 1997

The Adoption and Safe Families Act of 1997 (ASFA) (P.L. 105-89) contained provisions to help accelerate and insure the movement of children from the states' child welfare systems to adoptive homes or other permanent placements (such as in a foster home). Its provisions parallel and implement the central recommendations of the Administration's Adoption 2002 initiative.

ASFA's goal is to shorten the time frame for making permanency planning decisions, establish a time frame for initiating proceedings to terminate parental rights, clarify reasonable efforts to return the child to the parental home, and call for every state to ensure that its laws and regulations comply with the new provisions, so that children in the state's child welfare system are able to move to adoptive homes or other permanent placement more quickly.

ASFA also provided an incentive to states to increase the number of adoptions for children waiting in the foster care system. In Fiscal Year 1999, 35 states received shares of the \$20 million in adoption incentive awards based on their Fiscal Year 1998 performance.

CHILD WELFARE DEMONSTRATION WAIVERS

The Adoption and Safe Families Act of 1997 also authorized the Department of Health and Human Services to approve up to 10 demonstration projects each year through 2002. These demonstration projects involve the waiver of certain requirements of titles IV-B and IV-E, the sections that govern foster care, adoption assistance, independent living, child welfare services, promoting safe and stable families, family preservation and support, and related expenses for program administration, training and automated systems. This authority provides states with an opportunity to develop approaches to remove the many barriers that may exist between children waiting in foster care and their adoption or permanent placement. The states can design and demonstrate a wide range of approaches to improve and reform child welfare. Thirty child welfare demonstration projects have been approved in 21 states and the District of Columbia.

COURT IMPROVEMENT PROGRAM

The Court Improvement Program provides funding to state courts to improve the handling of foster care and adoption proceedings. The Court Improvement Program has strengthened the focus on judicial decision-making and the role that courts play in attaining safe, permanent homes for children.

file adoption



One Corporate Drive
Suite 515
Shelton, CT 06484
TEL (203) 929-3837
FAX (203) 926-0775
www.caseyfamilyservices.org

Raymond L. Torres
Executive Director

September 20, 2000

Mrs. Hillary Rodham Clinton
First Lady
The White House
Washington, DC 20500

Ann O'Leary
for

Dear Mrs. Clinton:

On behalf of Casey Family Services, the direct service arm of The Annie E. Casey Foundation, I am pleased to invite you to serve as the keynote speaker at our National Post-Adoption Services Conference in Washington, DC, from December 3-5, 2000. As someone who has been actively involved in supporting adoption and foster care issues, we believe your participation would be extremely beneficial and a valuable addition to an already substantive agenda.

The conference, which will serve as the kick-off of Casey Family Services' 25th anniversary celebration, will gather more than 300 child welfare, social services, education and mental health experts, judges and state legislators, parents and adoptees from around the country to discuss the many issues facing foster and adoptive families. By sharing best practices, discussing challenges and listening to conference attendees, we plan to identify new solutions that will enable state agencies and private organizations to better support and preserve adoptive families; in particular, those families that adopted children from the foster care system. We hope the conference, with your help, will serve as a "call to action" to urge attendees, policy makers and others to address these challenges, and that the solutions identified at the conference will provide the blueprint.

Established in 1976, Casey Family Services is a multi-service, child welfare agency with divisions in each of the six New England states and Maryland offering foster care for children as well as post-adoption, preservation and reunification services for families, and assistance for families affected by HIV/AIDS and teen parents. The Annie E. Casey Foundation is a leader in promoting systems reform, improved service and practices and innovative programs to meet the needs of disadvantaged children. Casey Family Services offers specialized and innovative community-based programs to help strengthen families and enable parents to provide the healthy, nurturing environments their children need to grow and thrive.



The National Post-Adoption Services Conference will be held at the Hyatt Regency Hotel, 400 New Jersey Avenue, NW. The keynote speech is scheduled for Monday, December 4, at 10:00 a.m. Enclosed is a conference agenda for your information.

Casey Family Services would be honored to have you participate as our keynote speaker. Someone will contact you on behalf of Casey Family Services in the next few days regarding this invitation. In the meantime, if you have any questions, please contact Ms. Michal Lawler of Edelman Public Relations at 212-704-8274.

Sincerely,



Raymond L. Torres
Executive Director
Casey Family Services

Enc.

National Post-Adoption Services Conference Preliminary Agenda

Sunday, December 3, 2000

6:00 p.m. - 8:00 p.m.

Registration
Reception in Exhibit Area

Monday, December 4, 2000

8:00 a.m. - 9:00 a.m.

Registration and Breakfast

9:00 a.m. - 9:30 a.m.

Welcome & Introductory Remarks
- Raymond L. Torres, Director, Casey Family Services
- Douglas W. Nelson, President,
The Annie E. Casey Foundation
- Guest speaker

9:30 a.m. - 9:45 a.m.

Results of a National Survey on Post-Adoption Services

9:45 a.m. - 10:00 a.m.

Premier of Video on Post-Adoption Services
Developed by Casey Family Services

10:00 a.m. - 10:30 a.m.

Keynote Speaker

10:30 a.m. - 10:45 a.m.

Break

10:45 a.m. - 11:45 a.m.

Panel of Adoptive Parents
Needs and experiences of adoptive families.

11:45 a.m. - 12:15 p.m.

Draft Policy Agenda

12:15 p.m. - 1:30 p.m.

Lunch

1:30 p.m. - 3:30 p.m.

Panel Discussion on State Models
Three or four states will report on their approaches
to providing post-adoption services.

3:30 p.m. - 3:45 p.m.

Break

3:45 p.m. - 5:00 p.m.

Roundtable Discussions
Facilitated by state teams.

5:30 p.m. - 7:00 p.m.

Reception on Capitol Hill
This will be a more formal reception.

Tuesday, December 5, 2000

7:30 a.m. - 8:30 a.m.

Breakfast

8:30 a.m. - 10:30 a.m.

Panel Discussion on State Models

Three or four states will report on their approaches to providing post-adoption services.

10:30 a.m. - 10:45 a.m.

Break

10:45 a.m. - 12:00 p.m.

Panel Discussions

A panel of adopted youth discuss their experiences.

12:00 p.m. - 1:00 p.m.

Lunch

1:00 p.m. - 2:00 p.m.

Roundtable Discussions

2:15 p.m. - 3:15 p.m.

Panel Discussion on Creative Solutions

We will identify several issues relating to developing and expanding post-adoption services and examine some proposed solutions.

Examples include:

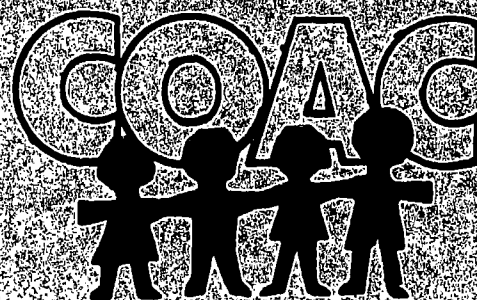
- Financing services
- Involving the media
- Evaluation

3:15 p.m. - 4:00 p.m.

Next Steps and Closing

4:00 p.m.

Adjourn



**PHOTOCOPY
PRESERVATION**

**PHOTOCOPY
PRESERVATION**

COUNCIL ON ADOPTABLE CHILDREN
666 Broadway
New York, New York 10012
Telephone: (212) 475-0222
Fax: (212) 475-1972

Ann- [—] Interadoption

NY adoption

Contact:

Julie Aguilera

NY Council on

Adoptable Children

212-475-0882

- Rhy |

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Fifteenth Annual Awards Ceremony
Twenty Fifth Anniversary Year

Ceremony and Banquet

November 17, 1998

The NEW YORK HILTON & TOWERS
Sutton Ballroom Complex – Second Floor
New York City

INFORMATION ABOUT THE COUNCIL ON ADOPTABLE CHILDREN...

Goals

The Council on Adoptable Children (COAC), founded in 1972, is an adoption services agency which offers programs to parents interested in adopting abused and neglected children in the N.Y.C. foster care system. COAC's mission is to insure that as many adoptable children as possible are placed, as expeditiously as possible, with families that will love and care for them.

History

COAC evolved from a group of adoptive parents who met informally in 1970 to discuss the severe delays they had encountered with the bureaucratic foster care system, to propose methods to get the system to act faster, and to provide mutual support. Today, hundreds of children who are in the process of becoming legally free to be adopted, languish for years unnecessarily in the limbo of the glacially-slow foster care system. COAC is devoted to recruiting parents and helping them shorten the length of waiting time for these adoptable children.

Programs

COAC offers four programs to New Yorkers interested in adoption:

1) African-American and Hispanic Parent Recruitment, Education and Assistance Programs

Through these programs, COAC recruits and works with minority parents interested in adopting children in foster care. We assist these parents through all phases of the adoption process. These programs are the centerpiece of COAC's programmatic services:

- *the African-American Child Adoption Program*
- *the Hispanic Child Adoption Program, and*
- *the Forever Families/Familias Para Siempre - Post Adoption Program*

Under these programs, COAC recruits and then provides a two-part orientation for prospective parents. Personal interviews are then conducted by COAC staff to evaluate the suitability of the family for adoption, and prepare them for the rigors of the lengthy adoption process. A child is identified, a preliminary home study is conducted and then COAC makes contact with the agency that has the child. At this point COAC serves as an advocate for the parents with the agencies -- it keeps in touch with the parents, and with the foster care agency, clearing logjams and keeping the process moving until a child is placed with them.

2) Family Education and Support Services

COAC provides parent training and support groups for families who have adopted special needs children. These children pose a major challenge to any parent and moreso to the adoptive parent. Life's ordinary tasks assume amplified proportions when a parent deals with a child's mental, physical or emotional handicap. COAC provides the support needed to enable the family to adjust.

3) Adoption Education and Referral Program

For people interested in adoption, COAC serves as a clearinghouse for information on the process. If the inquirers are not interested in adopting a special needs child, COAC refers them to the appropriate agency to meet their needs.

4) AIDS Orphans Adoption Program

In 1993, COAC undertook a new initiative, the first independent service offering assistance to AIDS-affected parents so they can plan for the future of their children and avoid their placement into the foster care system. The program features a specialized social and legal services team who work with parents terminally ill with AIDS to help them create a permanency plan for their children, including the recruitment of adoptive parents for those orphans whose kin are unable to raise them. Since its inception, over 350 AIDS affected children have secured permanency.

The Population COAC Serves

COAC serves primarily African-American and Hispanic New Yorkers who seek to adopt children in the city's foster care system. We mainly serve families from the five boroughs and the surrounding region, but we also help families from other states and countries who seek to adopt New York children.

There are currently over 38,000 children in foster care in New York City. The vast majority (over 95%) are African-American and Hispanic. About 15,000 of the 38,000 children have the goal of adoption; approximately 8,000 of these are legally free to be adopted. COAC's target population is the hardest to place sub-group of special needs children - minority, older, handicapped, sibling groups. These are the innocent victims of the problems of their parents and our society, placed in foster care due to neglect, abuse, poverty, substance abuse, and homelessness.

The vast increase in the number of children in foster care in New York City can be traced to the two poverty-related issues of homelessness and drug abuse. Since the advent of the crack epidemic in the mid-eighties, we have seen thousands of "boarder babies" entering the foster care system. The vast majority of the children under 5 who are in foster care, were exposed to crack in utero and were born with developmental disabilities.

60% of these children will be returned to the biological parents after an average of 4 years in a foster home. The remaining 40% will be eventually freed for adoption, and most of these children will be adopted by their foster parents. But the older, developmentally disabled, or minority "special needs" children will languish in foster care for years before they are legally freed to be adopted, costing society upwards of \$15,000 for every year they remain unadopted.

The Need for COAC

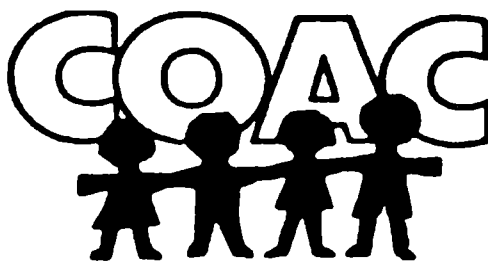
Even after these children become legally adoptable, the current bureaucratic foster care system does not have an incentive to move them quickly out of foster care and into adoptive homes -- they are paid on a "per diem" basis for every child in foster care. The system does not actively pursue adoptive families and work with them until a child is placed; it is glacially slow; there are dozens of delays. Meanwhile, infants grow into school-age children, toddlers grow into pre-teens -- in short, children who are grieving the loss of their biological parents are made to wait years for a permanent, loving family. The lasting emotional damage this process causes is not only heartbreaking and cruel, it is an injustice to these children and to society.

To deal with this injustice, COAC is devoted to expediting the adoption process for these children and reducing their waiting time in foster care. Unlike the homeless, whose plight is visible to the public eye, the situation of these children is hidden from public view. We therefore try to bring visibility to the problems of these children by participating in advocacy and publicity campaigns.

COAC's Role and Its Effectiveness

COAC is the oldest independent program in New York City that recruits minority parents for special needs children and then guides them through the maze of the adoption process. As such, we are intimately familiar with the barriers to adoption that exist for all special needs children.

The success of COAC is most clearly demonstrated in the dramatically higher rate of successful adoptions among COAC-counseled families (90% vs industry-wide 70%). COAC's staff is composed of African-American and Hispanic professionals and the agency has strong grass-roots linkages that enable it to successfully recruit large numbers of adoptive parents from the African American and Hispanic community. Since its inception, COAC has helped place over 2,000 special needs children a remarkably high number for a small agency and for this field. Finally, we take great pride in the fact that **COAC's interventions have proven to shorten the adoption process by six months to two years.**



The AIDS Orphans Adoption Program

Description and Purpose of the Program:

The purpose of the AIDS Orphans Adoption Program is to assist parents terminally ill with AIDS to plan for the future care of their children and avoid having their children placed into foster care.

The AIDS Orphans Adoption Program features a specialized legal and social service team who work with parents terminally ill with AIDS to help them create a permanency plan for their children and avoid the placement of those children into the maze of the foster care system. Adoptive parents, including kindred relations, are now being recruited and the project attorney is managing the adoption process.

The full scope of services of the AIDS Orphans Adoption Program includes:

- 1) Permanency Planning: discussions with the biological parent of the options available, the development of wills and custody documents;
- 2) Adoptive Parent Recruitment and matching with the children;
- 3) Family Support Services: Individual, and family counseling, as well as support groups for prospective guardians and appropriate referrals made where necessary through a network of resources and;
- 4) Legal Services: the advocacy and legal services of a staff attorney

Thousands of children are expected to be orphaned due to AIDS in the next few years. COAC's AIDS Orphans Adoption Program is demonstrating that they can be placed with a new family, avoiding the foster care system, and that the court system can be prodded to move faster to accommodate the accelerated time frame needs of the AIDS-affected biological parent. We aim to expedite by as much as six months the adoption or custody process for these families.

The parents do not have the time to wait for the legal system and the adoption process to operate at their normal speed.

The few programs in New York which have been set up recently to deal with the issue of the growing numbers of AIDS Orphans have chosen to focus on increasing the availability of foster care placements -- a short-term solution to the growing numbers of children needing homes.

COAC's AIDS Orphans Adoption Program, on the other hand, is the first non-governmental program to pose adoption as a viable option. We believe that adoption, as a permanent solution, is a more nurturing alternative than placement in the overwhelmed foster care system. In foster care, the children typically move from home to home, unnecessarily disrupting young ones already grieving over the death of their parents.

The Need for the AIDS Orphans Adoption Program:

COAC has become aware of the increasing numbers of AIDS Orphans entering the foster care system, thereby entering COAC's client base. We have been involved in finding adoptive parents for hard-to-place children, including those of HIV affected parents. We are aware of the slowness and un-nurturing nature of the over-burdened foster care system, and want to help AIDS-affected parents to avoid having to place their children in foster care and to plan for secure homes for their children.

In New York City, there are more than 35,000 children in foster care. Youngsters entering foster care typically spend 3-5 years there before they are legally freed to be adopted. Even after they are legally free, adoptable children languish for years waiting for a permanent home because there are significant economic disincentives for foster care agencies to move with speed to find permanent homes for the children -- while the children are in foster care, the agencies are paid on a per diem basis. COAC is committed to moving children, as quickly as possible after the death of the parents, into new, permanent homes so they can begin their new lives.

About COAC:

The New York Council On Adoptable Children, founded in 1972, is an adoption services agency which has a strong track record of recruiting minority parents for the adoption of children in foster care in New York City, in particular, special needs children: children who are mentally and physically disabled, children of color, and sibling groups that are considered "hard to place". In recent years we have been placing children exposed to crack-cocaine in utero and HIV-negative children orphaned by AIDS.

COAC's primary functions have historically been to recruit and prepare African-American and Hispanic families for adoption, facilitate parent/child matching, keep in touch with the parents and with the foster care agency holding the child, clear logjams and keep the process moving. COAC's intervention has shortened the bureaucratic public adoption process, which typically takes 3-5 years, by as much as two years. The new AIDS Orphans Adoption Program builds upon COAC's established adoption programs, performing many of the same services, but adding home-based social services, counseling, and legal services for a new population, AIDS-affected families.

IF YOU KNOW ANY AIDS-AFFECTED PARENTS WHO MAY NEED OUR SERVICES, PLEASE CALL US AT (212) 475-0222.

IF YOU ARE INTERESTED IN ADOPTING A CHILD OR CHILDREN ORPHANED BY AIDS, PLEASE CALL US AT (212) 475-0222. ASK FOR THE AIDS ORPHANS ADOPTION PROGRAM STAFF.

ALL OF COAC'S SERVICES ARE FREE.

New York Council On Adoptable Children
666 Broadway - Suite 820
New York, N.Y. 10012
(212) 475-0222

Lee: adynstia

The White House Office of Presidential Messages

Telephone: 202-456-7487

Fax: 202-456-2806



Facsimile Transmittal Sheet

No. of pages (including cover): 5 Date: 10/30/00Fax Number: 102878To: Heather Howard and Ann O'LearyComments: Draft proc for National Adoption
Month. Please let me know by 5:00PM, tomorrow,
10/31/00, if you have any edits/suggestions.From: Eileen McCaughey 865794

THE WHITE HOUSE

WASHINGTON

Ann O'Leary/Heather Howard October 30, 2000

MEMORANDUM FOR:

FIRST LADY'S STAFF (MELANNE VERVEER)
LISEL LOY (ADAM ROSMAN)
BETH NOLAN
THURGOOD MARSHALL, JR.
CHUCK BRAIN
✓BRUCE REED
MARY BETH CAHILL
MINYON MOORE
MARK LINDSAY
STEPHANIE STREETT - FYI

FROM:

Eileen McCaughey/Maureen Hudson
for DELIA COHEN

SUBJECT:

(Draft Proclamation)
National Adoption Month, 2000

Attached for your review is the above-mentioned proclamation designating November 2000 as "National Adoption Month, 2000."

It was submitted by the Department of Health and Human Services through the Office of Management and Budget and edited/revised by the Presidential Letters and Messages Office.

IMMEDIATE ATTENTION REQUIRED. Written or oral response required by no later than 5:00 p.m., Tuesday, October 31, 2000. IF WE HAVE NOT HEARD FROM YOU BY 5:00 P.M., WE WILL ASSUME THAT THE DRAFT IS ACCEPTABLE TO YOU.

For questions, discussion, or routine clearance, contact Eileen McCaughey, extension 65494, or Maureen Hudson, extension 65902, via phone or interoffice mail, in room 91. Thank you.

cc: Tim Saunders

NATIONAL ADOPTION MONTH, 2000

- - - - -

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

Families are the cornerstone of life in America. For children growing up in the child welfare system, often shuttled from one living situation to another, adoption opens the door to loving parents and permanent homes, where they can put down roots and learn what it means to be part of a safe, ^{loving} stable family. Adoption gives children who have been orphaned, abandoned, or abused a precious second chance at happiness; a chance to love and be loved and to reach their full potential in a secure, supportive environment.

Today, tens of thousands of America's children are living within our child welfare system. While many will return to their own families when conditions in their home improve, more than 117,000 will need placement in the coming years through adoption, legal guardianship, or another permanent alternative. Although foster care can provide a supportive temporary environment, adoption gives these children the sustained love and care of permanent families.

Increasing the chances of adoption for children in the foster care system has been one of my Administration's chief goals. Over the last 8 years, we have worked with the Congress to craft legislation that makes it easier, faster, and more affordable for parents to adopt children. Adoptive parents -- like all new parents -- can now take time off to care for their newly adopted children without fear of losing their jobs. We have ensured health coverage for adopted children with special needs, barred discrimination and delays of adoptions on the basis of race or ethnicity, provided tax cuts to families adopting children, and offered States financial incentives to move children more rapidly from foster care into the permanent homes of loving families.

2

We are beginning to see dramatic results from these efforts. Last year alone, 46,000 foster children were adopted -- increase of nearly 65 percent since 1996. All 50 States, as well as the District of Columbia and Puerto Rico, have succeeded in increasing the number of children adopted from the child welfare system within their jurisdictions. This puts us well on the way to meeting my goal of doubling the annual number of adoptions from 28,000 in 1996 to 56,000 in 2002.

Despite our efforts, nearly 20,000 18-year-olds still leave foster care each year without the emotional, social, and financial support that adoptive families provide. To help them make the challenging transition to successful, independent adulthood, I signed the Foster Care Independence Act last year. This legislation provides young people who are aging out of the foster care system with better educational opportunities and access to health care, training, housing assistance, counseling, and other services.

As we observe National Adoption Month, we should take pride in our progress, but realize that there is more work to be done. Let us recommit ourselves to giving our Nation's most vulnerable children what every child deserves and needs -- a safe, stable home and a loving family. And let us also give thanks for the many generous and compassionate families who, through adoption, have opened their hearts and homes and changed a child's life forever.

NOW, THEREFORE, I, WILLIAM J. CLINTON, President of the United States of America, by virtue of the authority vested in me by the Constitution and laws of the United States, do hereby proclaim November 2000 as National Adoption Month. I urge all Americans to observe this month with appropriate programs and activities to honor adoptive families and to participate in efforts to find permanent, loving homes for waiting children.

IN WITNESS WHEREOF, I have hereunto set my hand this

day of , in the year of our Lord two thousand, and of the Independence of the United States of America the two hundred and twenty-fifth.