

# Who claims the federal adoption tax credit? Those who know about it

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## Research Article

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# Who claims the federal adoption tax credit? Those who know about it

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## Abstract

This research investigates which individuals are aware of and claim the federal adoption tax credit. Using a probit model, I find that the probability that one claims the credit increases with one's income and is lower for Black adoptive parents compared to White ones. These discrepancies in usage stem from different probabilities of knowing about the credit. However, conditional on awareness, I find that the probability of claiming the credit is no different among members of differing income or racial groups, implying that a direct way to increase takeup of the tax credit could simply be increasing awareness of it.

Keywords: Adoption tax credit; takeup rates

JEL codes: H24; J13; J15

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# 1 Introduction

The federal adoption tax credit, introduced in 1996 at a value of \$5,000, is one of the primary tools that the United States government uses to incentivize adoptions. It is designed to offset the high fixed costs of the adoption process by allowing adoptive parents to reduce their tax liability by the amount they spent completing an adoption. Congress doubled the credit value starting in 2002 and set it to automatically adjust for inflation. As such, in 2022, the maximum amount that could be claimed was \$14,890, and the federal government forewent an estimated \$870 million in revenue due to taxpayers claiming the nonrefundable credit ([United States Department of the Treasury, 2023](#)).<sup>1</sup>

Also in 2002, Congress restructured the credit to be the most generous towards those adopting “special needs” children from the U.S. foster care system.<sup>2</sup> As a result, parents who adopt such a child from foster care *may claim the entire value of the credit, regardless of actual adoption expenses incurred*. Most public adoptions (those from foster care) are categorized as special needs and have little monetary cost—therefore the federal adoption tax credit represents a substantial monetary transfer, rather than a reimbursement, to parents completing a public adoption ([Rodgers and Wallace, 2020](#); [Child Welfare Information Gateway, 2022](#)). At the same time, it represents a substantial reduction in the true cost of adoption for parents completing a private domestic adoption, which may cost between \$30,000 and \$60,000, or an international adoption, which can range from \$20,000 to \$50,000.<sup>3</sup>

A small body of research has focused on the impact of the federal adoption tax credit. [Rodgers and Wallace \(2020\)](#) and [Brehm \(2021\)](#) examine a two-year period in which the credit became refundable, substantially increasing the generosity of the credit for low- and middle-income households with relatively little tax liability. Using national administrative

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<sup>1</sup>Though the credit is nonrefundable, any balance may be carried forward for up to five years, and this feature increases the likelihood that lower-income families may benefit from the credit.

<sup>2</sup>The term “special needs” when referring to adoptions from foster care indicates that a child may be difficult to place due to certain characteristics, including age, race, sibling group, etc.

<sup>3</sup>For more information on how the tax credit incentivizes the three types of adoption differently, see [Rodgers and Wallace \(2020\)](#); [Internal Revenue Service \(2023\)](#). For more information on costs associated with different types of adoption, see [Child Welfare Information Gateway \(2022\)](#).

data, [Brehm \(2021\)](#) demonstrates an uptick in public adoptions towards the end of the refundability period, suggesting that parents were aware of the expiring generosity. [Rodgers and Wallace \(2020\)](#) focus on public adoptions in Florida, showing that only residents in richer, urban counties responded to the generosity—those in rural areas were seemingly unaffected by the increase in generosity. Examining state-level adoption tax credits, [Henry and Walker \(2023\)](#) find suggestive evidence that, after enactment, adoptions increased in states with higher tax burdens on lower-income families.

While this prior research indicates that the use of tax credits may vary by generosity and regional characteristics, data limitations prevent a thorough examination of what may influence takeup at an individual level. To what extent are richer families more likely to claim the credit? How does takeup differ by adoption type? by parental race? I address this gap in the literature by examining results from the National Survey of Adoptive Parents, a nationally representative survey in which adoptive parents were specifically asked if they knew of and used the federal adoption tax credit. Leveraging this information, I present the first study examining adoptive parent characteristics in relation to takeup of the federal adoption tax credit. Understanding who precisely is aware of and used the credit allows for a better understanding of how state-sponsored adoption incentives work and may illuminate opportunities to better encourage the completion of adoptions.

When estimating the probability that one uses the credit, takeup rates differ by income and race. Richer families were more likely to use the credit than poorer families, and White families were more likely to claim the credit than Black families. Given this finding, do disparities in takeup rates originate from the structural design or implementation of the tax credit? Or do disparities originate from awareness of the credit itself? If the former, then features of the tax credit may need to be adjusted in order to make it more accessible to low-income families—perhaps making the credit refundable or reducing compliance costs. If, however, disparities exist because of awareness, then the policy prescription is much different and would center around increasing the salience of the credit.

To answer these questions, I condition on awareness of the credit, limiting the sample to just those who knew the credit existed at the time of the adoption. There are *no differences in takeup rates* among member of these groups when conditioning on awareness. That is, White families who knew about the credit were no more likely to use the credit than Black families who knew about it. The same holds for richer and poorer families. Coupled together, these findings suggest that the biggest obstacle to takeup of the adoption tax credit is simply knowing that it exists. While it is true that richer families and White families are more likely to claim the credit, it does not appear to be a direct function of wealth or race, rather a function of awareness.

While this research contributes most directly to the literature focusing on the efficacy of the adoption tax credit, it also adds to the discussion of differential takeup rates of tax credits and other forms of government support by low-income and minority individuals. The findings are quite similar to [Ihlanfeldt \(2021\)](#), who demonstrates lower takeup rates of property tax exemptions in lower income areas and in neighborhoods with a high fraction of minority residents. Importantly though, takeup rates were higher if the local tax assessor publicized the exemption—an awareness channel. Also see [Finkelstein and Notowidigdo \(2019\)](#), who find that, in a randomized field experiment focusing on enrolling individuals for Supplemental Nutrition Assistance Program benefits, outreach coupled with assistance generated greater enrollment than information alone, which still generated greater enrollment rates than no intervention. These findings are in accord with [Dickert-Conlin et al. \(2005\)](#), who report that one reason why low-income individuals fail to claim a tax credit is simply that they are unaware it exists.

## 2 Data

Data for this research come from the National Survey of Adoptive Parents, a nationally representative sample of adoptive parents who had completed a public adoption, private

domestic adoption, or private international adoption.<sup>4</sup> The survey, sponsored by the U.S. Department of Health and Human Services, was administered between April 2007 and July 2008 and features 2,089 responses. Of these responses, only a subset are suitable for this study. First, parents must have completed an adoption after the creation of the tax credit in 1996. Next, parents had to decisively answer all questions regarding income, cost of adoption, and age of the child at adoption. In addition, parents must have answered either yes or no to the following question: “At the time of [the child]’s adoption, were you or your spouse/partner aware of the federal adoption tax credit?” Those who answered affirmatively were then asked, “Did you or your spouse/partner file for the adoption tax credit on your income tax return?” These are the two survey questions that comprise my key dependent variables.

Two more features about the survey data must be noted. First, the public dataset does not directly report the race of the surveyed parent, but it does include the race of the child and includes a variable that indicates whether the child’s race differs from that of both parents (or differs from that of the single parent). As such, I am only able to identify the race of parents who adopt a child of their same race. These are the parents analyzed in the study. Second, the income data collected do not pertain to the time of the adoption but rather to the time of the survey, in 2007, and are reported as multiples of the poverty level, which has the advantage of adjusting for household size. Given the necessary restrictions, the final sample includes 780 observations. I use the proper sampling weights when completing summary statistics and regression analysis.

Table 1 shows the sample-weighted fraction of observations for each mutually exclusive category—unaware of the tax credit, aware but did not claim the credit, and aware of and claimed the credit—by variable. Observe that over half of the parents in the sample were unaware of the tax credit and just over a third of the parents claimed the credit. Regarding key independent variables, note that household incomes are rather evenly distributed, and most adoptions are either public or private. Lastly, White and Black parents have considerable

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<sup>4</sup>Parents were identified through participation in the 2007 National Survey of Children’s Health, in which they reported having an adopted child between the ages of 0–17.

representation as 60 percent and 26 percent of families.

### 3 Methodology

I incorporate a probit model to estimate the change in the probability that an adoptive parent i) is aware of the federal adoption tax credit and ii) claims the credit. The model is

$$Y_i = \Phi(X_i\beta + \epsilon) \tag{1}$$

where  $Y_i$  is a binary variable representing either awareness of the credit or claiming the credit and  $X_i$  includes adoption-level controls for 2007 household income; adoption type; sex and race of the parent; age of the child when adopted; adoption cost; and year the adoption was completed. I incorporate the proper sampling weights, clusters, and strata when estimating the probit regressions, and I report marginal effects.

### 4 Results

Table 2 depicts the marginal effects following the estimation of Equation (1) with the dependent variable equal to one if the adoptive parent claimed the federal adoption tax credit at the time the adoption was completed. This table demonstrates the unequal patterns in takeup among members of different groups. First, families with higher household incomes in 2007, starting at twice the poverty level, were 16–19 percentage points more likely to claim the credit relative to those families at or below the poverty line. Second, families completing a private adoption were less likely to claim the credit than those completing a public adoption. Third, Black families were 12 percentage points less likely to claim the credit relative to White families. Next, parents completing adoptions with younger children and those paying higher price tags were more likely to use the credit. Last, there is a general trend of an increased probability of claiming the credit as time progresses.

Table 3 uses the same observations from Table 2 to estimate the probability of actually knowing about the credit. The trends continue. Notably, White families are 13 percentage points more likely to be aware of the credit, and richer families are 22–24 percentage points more likely to know about the credit than poorer families.

However, it is interesting to compare the results of Table 2 with those of Table 4, which shows the marginal effects following the estimation of Equation (1) with the dependent variable equal to one if the adoptive parent actually claimed the federal adoption tax credit, *conditional on being aware of the credit*. The discrepancy between richer and poorer families, Black and White families, adoption type, and older and younger children disappear. That is, conditional on knowledge of the credit, rich families are just as likely to use the credit as poor ones, and Black parents are just as likely as White parents to claim it, as is illustrated in Figure 1. What differs, conditional on awareness, is the total cost of the adoption and the timing of the adoption. Parents completing more expensive adoptions are substantially more likely to claim the credit, and there is again the trend of an increased probability of claiming the credit in later years.

## 5 Discussion and Conclusion

Who claims the federal adoption tax credit? Those who know about it. Discrepancies exist among many groups in the probability of claiming the credit. Gaps are particularly significant between Black and White families and between rich and poor families. However, these differences in use stem from differences in the probability of awareness. Knowledge about the credit is the overarching obstacle because, conditional on awareness, the probability of claiming the credit is no different among members of differing income or racial groups.

These results imply that policymakers may be able to increase takeup of the adoption tax credit among low-income families and Black families by taking steps to ensure that anyone seeking to adopt a child is aware of the tax credit and its intricacies. The credit is not



explicitly named on Form 1040, but it is listed on Line 6c of Schedule 3 and requires the completion of Form 8839. Eligible filers should have full information about the steps and documentation needed to claim the credit.

While there exists a myriad of resources for those interested in adoption, the benefits of the federal tax credit are not always fully explained, even by official sources. For example, a factsheet disseminated by the Child Welfare Information Gateway, under the U.S. Department of Health and Human Services, claims that “[t]axpayers are eligible for credit only if they have Federal income tax liability, and the credit only applies to the tax year in which the adoption was finalized” ([Child Welfare Information Gateway, 2022](#)). This statement may mislead low- or middle-income families who may not accrue the roughly \$15,000 tax liability necessary to take full advantage of the credit in one year. While the credit is nonrefundable, documentation from the Internal Revenue Service (IRS) states that “any credit in excess of your liability may be carried forward for up to five years,” meaning that a family may take full advantage of the credit if their tax liability *over five years* is at least \$15,000—an average of \$3,000 per year ([Internal Revenue Service, 2023](#)). This is a much more applicable situation for taxpayers. While the factsheet links to resources that do explicitly convey the carry-forward feature of the credit, a cursory reading of the material may dissuade low-income families who are interested in adopting but concerned about not being able to benefit from the sizable credit.<sup>5</sup>

Although presenting clear information about the adoption tax credit appears to be a simple approach, it should be a top priority for all parties who promote adoption, including state agencies and private institutions. At the first indication of interest in completing a special-needs public adoption, families should know that—because of the tax credit—monetary cost will not be a hurdle. For international and private domestic adoptions, families should be made aware of the full monetary benefits of the credit. Doing so would better match members of under-claiming groups with one of the primary adoption subsidies provided by the

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<sup>5</sup>Other resources (e.g. [Child Welfare Information Gateway \(2020\)](#)) from the Child Welfare Information Gateway do correctly discuss the ability to carry forward the remaining value of the credit.

federal government.

While this paper documents the differences in knowledge of the credit, further research is necessary to understand what causes the divergence of awareness rates. Understanding why such disparities exist could improve the function of the child welfare system and could lead to increases in rates of child adoption.

## **Declarations**

### **Ethical Approval**

Not applicable

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### **Availability of data and materials**

All data used in this paper are publicly available.

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**Table 1:** Summary statistics

Variable	% Unaware	% Aware and not claimed	% Aware and claimed	Total
Household income $\leq$ 100% PL	15.4	1.0	2.0	18.5
100% PL < hh inc. $\leq$ 200% PL	16.5	1.3	4.0	21.8
200% PL < hh inc. $\leq$ 300% PL	11.3	2.0	9.3	22.6
300% PL < hh inc. $\leq$ 400% PL	4.6	1.0	6.2	11.7
400% PL < hh inc.	7.1	3.0	15.3	25.4
Total	54.9	8.3	36.8	100.0
International adoption	1.4	0.4	4.9	6.7
Public adoption	28.5	4.9	12.1	45.5
Private adoption	25.0	2.9	19.9	47.8
Total	54.9	8.3	36.8	100.0
Adoptive mother surveyed	46.0	6.1	30.6	82.7
Adoptive father surveyed	8.9	2.1	6.2	17.3
Total	54.9	8.3	36.8	100.0
Parents—white	27.6	5.2	26.8	59.5
Parents—Black	20.5	2.1	3.8	26.3
Parents—other race	6.8	1.0	6.3	14.1
Total	54.9	8.3	36.8	100.0
Child adopted before 1 year old	4.6	1.1	15.1	20.8
Child adopted at 1–3 years old	14.5	2.8	12.1	29.5
Child adopted at 4–7 years old	19.9	2.2	5.6	27.7
Child adopted at age 8 or older	16.0	2.0	4.1	22.1
Total	54.9	8.3	36.8	100.0
Total cost = \$0	29.9	5.0	8.2	43.2
\$0 < total cost $\leq$ \$5,000	20.4	1.6	7.0	29.0
\$5,000 < total cost $\leq$ \$10,000	1.5	0.7	5.2	7.3
\$10,000 < total cost $\leq$ \$15,000	0.5	0.0	4.5	5.0
\$15,000 < total cost	2.7	0.9	11.9	15.4
Total	54.9	8.3	36.8	100.0
Completed in 1996-1997	2.4	0.9	1.8	5.1
Completed in 1998-2000	14.0	0.8	11.8	26.6
Completed in 2001-2002	9.5	2.1	6.6	18.1
Completed in 2003-2004	15.0	1.9	8.0	24.9
Completed in 2005-2006	7.7	1.0	5.5	14.1
Completed in 2007-2008	6.4	1.6	3.1	11.1
Total	54.9	8.3	36.8	100.0

Note: The table shows the survey-weighted percent of observations that fall into one of three mutually exclusive categories—unaware of the tax credit, aware but did not claim the credit, and aware of and claimed the credit—by variable. Observations (N=760) in all three categories comprise the sample for results in Tables 2 and 3. Observations (N=380) in the two center columns comprise the sample for results in Table 4.

**Table 2:** Marginal effects on the probability that an adoptive parent claimed the federal adoption tax credit

Dep. variable: <i>Claimed ATC</i>			
100% PL < hh inc. $\leq$ 200% PL	0.033 (0.075)	\$0 < total cost $\leq$ \$5,000	0.048 (0.055)
200% PL < hh inc. $\leq$ 300% PL	0.163** (0.074)	\$5,000 < total cost $\leq$ \$10,000	0.418*** (0.107)
300% PL < hh inc. $\leq$ 400% PL	0.192** (0.094)	\$10,000 < total cost $\leq$ \$15,000	0.534*** (0.099)
400% PL < hh inc.	0.167** (0.076)	\$15,000 < total cost	0.370*** (0.107)
International adoption	-0.029 (0.081)	Completed in 1998–2000	0.179** (0.079)
Private adoption	-0.086* (0.047)	Completed in 2001–2002	0.120 (0.077)
Adoptive father surveyed	-0.060 (0.047)	Completed in 2003–2004	0.139* (0.078)
Parents—Black	-0.126** (0.057)	Completed in 2005–2006	0.172** (0.081)
Parents—other race	-0.030 (0.061)	Completed in 2007–2008	0.160* (0.083)
Child adopted at 1–3 years old	-0.079 (0.078)		
Child adopted at 4–7 years old	-0.215*** (0.083)		
Child adopted at age 8 or older	-0.227*** (0.083)		

Note: Depicted are marginal effects of variables following the estimation of Equation (1) with the dependent variable equal to one if the adoptive parent claimed the federal adoption tax credit. Reference categories are 2007 household income at or below 100% of the poverty line; public adoption; adoptive mother answered survey; parents' race is White; child adopted at 0 years old; total adoption cost equal to \$0; and adoption completed in 1997–1998. Linearized standard errors are in parentheses. N=760. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Table 3:** Marginal effects on the probability that an adoptive parent was aware of the federal adoption tax credit

Dep. variable: <i>Aware of ATC</i>			
100% PL < hh inc. $\leq$ 200% PL	0.031 (0.080)	\$0 < total cost $\leq$ \$5,000	-0.017 (0.060)
200% PL < hh inc. $\leq$ 300% PL	0.197** (0.083)	\$5,000 < total cost $\leq$ \$10,000	0.368*** (0.103)
300% PL < hh inc. $\leq$ 400% PL	0.222** (0.105)	\$10,000 < total cost $\leq$ \$15,000	0.406*** (0.106)
400% PL < hh inc.	0.246*** (0.087)	\$15,000 < total cost	0.275** (0.116)
International adoption	-0.039 (0.098)	Completed in 1998–2000	0.087 (0.099)
Private adoption	-0.092* (0.050)	Completed in 2001–2002	0.095 (0.101)
Adoptive father surveyed	-0.031 (0.058)	Completed in 2003–2004	0.081 (0.101)
Parents—Black	-0.138** (0.059)	Completed in 2005–2006	0.117 (0.101)
Parents—other race	-0.054 (0.066)	Completed in 2007–2008	0.175 (0.108)
Child adopted at 1–3 years old	-0.086 (0.081)		
Child adopted at 4–7 years old	-0.236*** (0.084)		
Child adopted at age 8 or older	-0.246*** (0.087)		

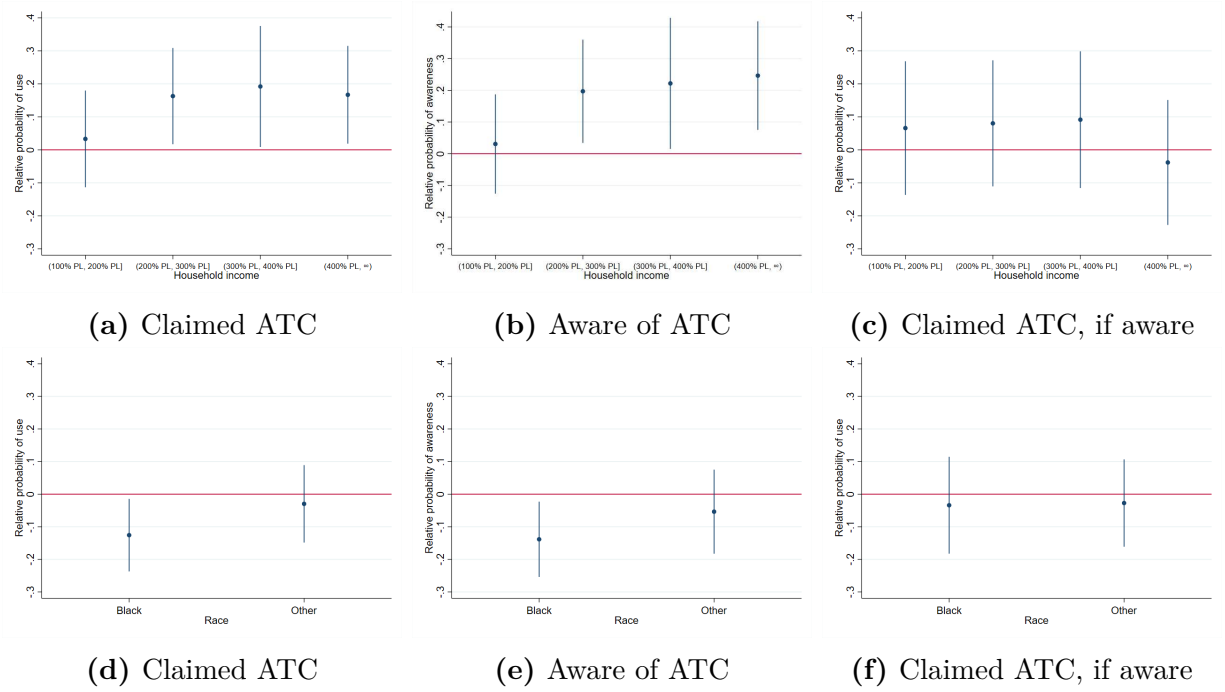
Note: Depicted are marginal effects of variables following the estimation of Equation (1) with the dependent variable equal to one if the adoptive parent was aware of the tax credit at the time of adoption. Reference categories are 2007 household income at or below 100% of the poverty line; public adoption; adoptive mother answered survey; parents' race is White; child adopted at 0 years old; total adoption cost equal to \$0; and adoption completed in 1997–1998. Linearized standard errors are in parentheses. N=760. \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 4:** Marginal effects on the probability that an adoptive parent claimed the federal adoption tax credit, conditional on being aware of the credit

Dep. variable: <i>Claimed ATC</i>			
100% PL < hh inc. $\leq$ 200% PL	0.066 (0.103)	\$0 < total cost $\leq$ \$5,000	0.266*** (0.092)
200% PL < hh inc. $\leq$ 300% PL	0.080 (0.097)	\$5,000 < total cost $\leq$ \$10,000	0.375*** (0.103)
300% PL < hh inc. $\leq$ 400% PL	0.091 (0.106)	\$10,000 < total cost $\leq$ \$15,000	0.456*** (0.097)
400% PL < hh inc.	-0.038 (0.097)	\$15,000 < total cost	0.423*** (0.104)
International adoption	-0.119 (0.106)	Completed in 1998–2000	0.358*** (0.127)
Private adoption	-0.094 (0.057)	Completed in 2001–2002	0.184 (0.135)
Adoptive father surveyed	-0.032 (0.055)	Completed in 2003–2004	0.260* (0.135)
Parents—Black	-0.034 (0.076)	Completed in 2005–2006	0.249* (0.135)
Parents—other race	-0.027 (0.068)	Completed in 2007–2008	0.182 (0.140)
Child adopted at 1–3 years old	-0.032 (0.060)		
Child adopted at 4–7 years old	-0.037 (0.071)		
Child adopted at age 8 or older	-0.124 (0.095)		

Note: Depicted are marginal effects of variables following the estimation of Equation (1) with the dependent variable equal to one if the adoptive parent claimed the federal adoption tax credit, conditional on being aware of the credit. Reference categories are 2007 household income at or below 100% of the poverty line; public adoption; adoptive mother answered survey; parents' race is White; child adopted at 0 years old; total adoption cost equal to \$0; and adoption completed in 1997–1998. Linearized standard errors are in parentheses. N=380. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$





**Figure 1:** Marginal effects by household income and parental race

Note: Marginal effects from Tables 2, 3, and 4 are depicted. The dependent variable is equal to one if the adoptive parent claimed or was aware of the adoption tax credit. For graphs showing household income, the reference category is 2007 household income at or below 100% of the poverty line. For graphs showing race, the reference category is White. Confidence intervals are at the 95 percent level.