

HOPE FOR CHILDREN ACT

MAY 15, 2001.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. THOMAS, from the Committee on Ways and Means,
submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 622]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 622) to amend the Internal Revenue Code of 1986 to expand the adoption credit, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Hope for Children Act”.

SEC. 2. INCREASED TAX INCENTIVES FOR ADOPTIONS.

(a) INCREASE IN MAXIMUM BENEFIT.—Section 23(b)(1) of the Internal Revenue Code of 1986 (relating to dollar limitation) is amended by striking “\$5,000” and all that follows and inserting “\$10,000.”

(b) BENEFITS MADE PERMANENT FOR ALL CHILDREN.—Paragraph (2) of section 23(d) of such Code is amended to read as follows:

“(2) ELIGIBLE CHILD.—The term ‘eligible child’ means any individual who—

“(A) has not attained age 18, or

“(B) is physically or mentally incapable of caring for himself.”

(c) INCREASE IN PHASEOUT.—Clause (i) of section 23(b)(2)(A) of such Code (relating to income limitation) is amended by striking “\$75,000” and inserting “\$150,000”.

(d) CREDIT ALLOWED AGAINST ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—Subsection (b) of section 23 of such Code is amended by adding at the end the following new paragraph:

“(4) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

“(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(B) the sum of the credits allowable under this subpart (other than this section) and section 27 for the taxable year.”

(2) CONFORMING AMENDMENTS.—

(A) Subsection (c) of section 23 of such Code is amended—

(i) by striking “section 26(a)” and inserting “subsection (b)(4)”, and

(ii) by striking “reduced by the sum of the credits allowable under this subpart (other than this section and section 1400C)”.

(B) Paragraph (1) of section 26(a) of such Code is amended by inserting “(other than section 23)” after “this subpart”.

(C) Section 904(h) of such Code is amended by inserting “(other than section 23)” after “chapter”.

(D) Subsection (d) of section 1400C of such Code is amended by inserting “and section 23” after “this section”.

(e) AMENDMENTS RELATED TO EMPLOYER-PROVIDED ADOPTION ASSISTANCE.—

(1) Paragraph (1) of section 137(b) of such Code is amended by striking “\$5,000” and all that follows and inserting “\$10,000.”

(2) Subparagraph (A) of section 137(b)(2) of such Code is amended by striking “\$75,000” and inserting “\$150,000”.

(3) Section 137 of such Code is amended by striking subsection (f) (relating to termination).

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2001.

(2) EXPENSES PAID OR INCURRED IN PRIOR YEARS.—Expenses paid or incurred during any taxable year beginning before January 1, 2002, may be taken into account in determining the credit under section 23 of the Internal Revenue Code of 1986 for a taxable year beginning on or after such date only to the extent the aggregate of such expenses does not exceed the applicable limitation under section 23(b)(1) of such Code as in effect on the day before the date of the enactment of this Act.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The bill, H.R. 622, as amended (the “Hope for Children Act”), extends and expands the tax benefits available to families adopting children.

The bill provides net tax reductions of over \$973 million over fiscal years 2001–2006. This will defray the costs associated with adopting children.

B. BACKGROUND AND NEED FOR LEGISLATION

The provisions approved by the Committee will defray the costs associated with adopting children. The estimated revenue effects of the provisions comply with the most recent Congressional Budget Office revisions of budget surplus projections.

C. LEGISLATIVE HISTORY

COMMITTEE ACTION

The Committee on Ways and Means marked up the provisions of the bill on May 9, 2001, and reported the provisions, as amended, on May 9, 2001, by a voice vote, with a quorum present.

II. EXPLANATION OF THE BILL

A. EXTENSION AND EXPANSION OF THE ADOPTION CREDIT AND THE EXCLUSION FROM INCOME FOR ADOPTION ASSISTANCE PAYMENTS

(Sec. 2 of the bill and secs. 23 and 137 of the Code)

PRESENT LAW

Tax credit

In general

A tax credit is allowed for qualified adoption expenses paid or incurred by a taxpayer. The maximum credit is \$5,000 per eligible child (\$6,000 for a special needs child). An eligible child is an individual (1) who has not attained age 18 or (2) is physically or mentally incapable of caring for himself or herself. A special needs child is an eligible child who is a citizen or resident of the United States who a 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 (such as the child's ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions, or physical, mental, or emotional handicaps) because of which the child cannot be placed with adoptive parents without adoption assistance.

Qualified adoption expenses are reasonable and necessary adoption fees, court costs, attorneys fees, and other expenses that are: (1) directly related to, and the principal purpose of which is for, the legal adoption of an eligible child by the taxpayer; (2) not incurred in violation of State or Federal law, or in carrying out any surrogate parenting arrangement; (3) not for the adoption of the child of the taxpayer's spouse; and (4) not reimbursed (e.g., by an employer).

Qualified adoption expenses may be incurred in one or more taxable years, but the credit may not exceed \$5,000 per adoption (\$6,000 for a special needs child). The adoption credit is phased out ratably for taxpayers with modified adjusted gross income between \$75,000 and \$115,000. Modified adjusted gross income is the sum of the taxpayer's adjusted gross income plus amounts excluded

from income under Code sections 911, 931, and 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).

The adoption credit for special needs children is permanent. The adoption credit with respect to other children does not apply to expenses paid or incurred after December 31, 2001.

Alternative minimum tax

Through 2001, the adoption credit generally reduces the individual's regular income tax and alternative minimum tax. For taxable years beginning after December 31, 2001, the otherwise allowable adoption credit is allowed only to the extent that the individual's regular income tax liability exceeds the individual's tentative minimum tax, determined without regard to the minimum tax foreign tax credit.

Exclusion from income

A maximum \$5,000 exclusion from the gross income of an employee is allowed for qualified adoption expenses paid or reimbursed by an employer under an adoption assistance program. The maximum excludible amount is \$6,000 for special needs adoptions. The exclusion is phased out ratably for taxpayers with modified adjusted gross income between \$75,000 and \$115,000. Modified adjusted gross income is the sum of the taxpayer's adjusted gross income plus amounts excluded from income under Code sections 911, 931, and 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). For purposes of this exclusion, modified adjusted gross income also includes all employer payments and reimbursements for adoption expenses whether or not they are taxable to the employee. The exclusion does not apply for purposes of payroll taxes. Adoption expenses paid or reimbursed by the employer under an adoption assistance program are not eligible for the adoption credit. A taxpayer may be eligible for the adoption credit (with respect to qualified adoption expenses he or she incurs) and also for the exclusion (with respect to different qualified adoption expenses paid or reimbursed by his or her employer).

The exclusion from income does not apply to amounts paid or expenses incurred after December 31, 2001.

REASONS FOR CHANGE

The Committee believes that the adoption credit and exclusion have been successful in reducing the after-tax cost of adoption to affected taxpayers. For this reason, the Committee believes that both these benefits should be extended permanently. The Committee noted that almost 50 percent of the tax returns filed in 1998 that received income tax benefits for adoption expenses reported total adoption expenses (including employer reimbursements) in excess of \$5,000. Further, approximately 25 percent of the tax returns filed in 1998 that received income tax benefits for adoption expenses reported total adoption expenses (including employer reimbursements) in excess of \$10,000. In the case of special needs adoptions, approximately 29 percent of the tax returns filed in 1998

that received income tax benefits for adoption expenses reported total adoption expenses (including employer reimbursements) in excess of \$6,000. The Committee believes that increasing the size of both the adoption credit and exclusion and expanding the number of taxpayers who qualify for the tax benefits will encourage more adoptions and allow more families to afford adoption. The Committee, however, is aware that families adopting special needs children may incur continuing expenses after the adoption is finalized that are not eligible for these tax benefits. The Committee will continue to search for ways to help alleviate these post-adoption expenses. Finally, the Committee believes that the alternative minimum tax should not be allowed to reduce the ability of adopting families to claim the adoption credit.

EXPLANATION OF PROVISION

Tax credit

The bill permanently extends the adoption credit for children other than special needs children. The maximum credit is increased to \$10,000 per eligible child, including special needs children. The beginning point of the income phase-out range is increased to \$150,000 of modified adjusted gross income. Therefore, the adoption credit is phased out for taxpayers with modified adjusted gross income of \$190,000 or more. Finally, the adoption credit is allowed against the alternative minimum tax permanently.

Exclusion from income

The exclusion from income for employer-provided adoption assistance is extended permanently. The maximum exclusion is increased to \$10,000 per eligible child, including special needs children. The beginning point of the income phase-out range is increased to \$150,000 of modified adjusted gross income. Therefore, the exclusion is not available to taxpayers with modified adjusted gross income of \$190,000 or more.

EFFECTIVE DATE

Generally, the provision is effective for taxable years beginning after December 31, 2001. Qualified expenses paid or incurred in taxable years beginning on or before December 31, 2001, remain subject to the present-law dollar limits.

III. VOTE OF THE COMMITTEE

Ordered reported by voice vote, with quorum present.

IV. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 622, as reported.

The bill is estimated to have the following effects on budget receipts for fiscal years 2001–2006:

ESTIMATED BUDGET EFFECTS OF H.R. 622, THE "HOPE FOR CHILDREN ACT," AS REPORTED BY
THE COMMITTEE ON WAYS AND MEANS; FISCAL YEARS 2002–2006

[In millions of dollars]

Provision	Effective	2002	2003	2004	2005	2006	2002–06
Increase Adoption Credit and the Adoption Assistance Program Exclusion to \$10,000 for Non-Special Needs Adoptions and Special Needs Adoptions; Permanently Extend Both the Adoption Credit for Non-Special Needs Adoptions and the Adoption Assistance Program Exclusion; Increase the Beginning Point of the Income Phase-Out Range to \$150,000 of Modified AGI for Both the Adoption Credit and the Adoption Assistance Program Exclusion; and Permanently Allow the Adoption Credit Against the AMT.	tyba 12/31/01 ¹	– 47	– 174	– 224	– 254	– 275	– 973

Note. Details may not add to totals due to rounding.

Legend for "Effective" column: tyba = taxable years beginning after.

¹ Qualified expenses paid or incurred beginning on or before December 31, 2001, would remain subject to the present-law dollar limits (\$5,000/\$6,000).

**B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX
EXPENDITURES BUDGET AUTHORITY**

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee further states that the revenue reducing income tax provision involves increased tax expenditures. (See amounts in table in Part IV.A., above.)

**C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET
OFFICE**

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 11, 2001.

Hon. WILLIAM "BILL" M. THOMAS,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 622, the Hope for Children Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Erin Whitaker.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

H.R. 622—Hope for Children Act

Summary: H.R. 622 would modify the tax credit allowed for adoption expenses paid by a taxpayer and the exclusion from gross

income allowed for adoption expenses paid or reimbursed by an employer under an adoption assistance program. The bill would extend permanently the adoption tax credit for children other than special needs children, and increase the maximum adoption credit from \$5,000 per eligible child, or \$6,000 for a special needs child, to \$10,000 per child. The level of modified adjusted gross income (AGI) at which the credit would begin to phase out would increase from \$75,000 to \$150,000. The bill also would extend the exclusion from gross income permanently, increase the maximum exclusion to \$10,000, and increase the level of modified AGI at which the exclusion would begin to phase out from \$75,000 to \$150,000.

The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that enacting the bill would reduce revenues by \$47 million in fiscal year 2002, by \$973 million over the 2002–2006 period, and by about \$2.6 billion over the 2002–2011 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

H.R. 622 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 622 is shown in the following table. All estimates of the revenue effects of the bill were provided by JCT.

	By fiscal year, in millions of dollars—				
	2002	2003	2004	2005	2006
CHANGES IN REVENUES					
Estimated Revenues	– 47	– 174	– 224	– 254	– 275

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	Not applicable										
Changes in receipts	0	– 47	– 174	– 224	– 254	– 275	– 288	– 302	– 317	– 332	– 348

Intergovernmental and private-sector impact: H.R. 622 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Erin Whitaker.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was a result of the Committee's oversight review concerning the tax burden on individual taxpayers that the Committee concluded that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. STATEMENT OF GENERAL PERFORMANCE GOALS AND OBJECTIVES

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. CONSTITUTIONAL AUTHORITY STATEMENT

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises . . ."), and from the 16th Amendment to the Constitution.

D. INFORMATION RELATING TO UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104-4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

E. APPLICABILITY OF HOUSE RULE XXI 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the "IRS Reform Act") requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the House Committee on Ways and Means, the

Senate Committee on Finance, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Internal Revenue Code and that have “widespread applicability” to individuals or small businesses.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

* * * * *

Subtitle A—Income Taxes

* * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter A—Determination of Tax Liability

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PART IV—CREDITS AGAINST TAX

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Subpart A—Nonrefundable Personal Credits

* * * * *

SEC. 23. ADOPTION EXPENSES.

(a) * * *

(b) LIMITATIONS.—

(1) DOLLAR LIMITATION.—The aggregate amount of qualified adoption expenses which may be taken into account under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed **[\$5,000 (\$6,000, in the case of a child with special needs).] \$10,000.**

(2) INCOME LIMITATION.—

(A) IN GENERAL.—The amount allowable as a credit under subsection (a) for any taxable year (determined without regard to subsection (c)) shall be reduced (but not below zero) by an amount which bears the same ratio to

the amount so allowable (determined without regard to this paragraph but with regard to paragraph (1)) as—

- (i) the amount (if any) by which the taxpayer’s adjusted gross income exceeds ~~[\$75,000]~~ \$150,000, bears to
- (ii) \$40,000.

* * * * *

(4) *LIMITATION BASED ON AMOUNT OF TAX.*—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

- (A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over
- (B) the sum of the credits allowable under this subpart (other than this section) and section 27 for the taxable year.

(c) *CARRYFORWARDS OF UNUSED CREDIT.*—If the credit allowable under subsection (a) for any taxable year exceeds the limitation imposed by ~~[section 26(a)]~~ subsection (b)(4) for such taxable year ~~[reduced by the sum of the credits allowable under this subpart (other than this section and section 1400C)]~~, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year. No credit may be carried forward under this subsection to any taxable year following the fifth taxable year after the taxable year in which the credit arose. For purposes of the preceding sentence, credits shall be treated as used on a first-in first-out basis.

(d) *DEFINITIONS.*—For purposes of this section—

(1) * * *

[(2) ELIGIBLE CHILD.—The term “eligible child” means any individual—

[(A) who—

[(i) has not attained age 18, or

[(ii) is physically or mentally incapable of caring for himself, and

[(B) in the case of qualified adoption expenses paid or incurred after December 31, 2001, who is a child with special needs.]

(2) *ELIGIBLE CHILD.*—The term “eligible child” means any individual who—

(A) has not attained age 18, or

(B) is physically or mentally incapable of caring for himself.

* * * * *

SEC. 26. LIMITATION BASED ON TAX LIABILITY; DEFINITION OF TAX LIABILITY.

(a) *LIMITATION BASED ON AMOUNT OF TAX.*—

(1) *IN GENERAL.*—The aggregate amount of credits allowed by this subpart (other than section 23) for the taxable year shall not exceed the excess (if any) of—

(A) * * *

* * * * *

Subchapter B—Computation of Taxable Income

* * * * *

PART III—ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME

* * * * *

SEC. 137. ADOPTION ASSISTANCE PROGRAMS.

(a) * * *

(b) LIMITATIONS.—

(1) DOLLAR LIMITATION.—The aggregate of the amounts paid or expenses incurred which may be taken into account under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed **[\$5,000 (\$6,000, in the case of a child with special needs).] \$10,000.**

(2) INCOME LIMITATION.—The amount excludable from gross income under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so excludable (determined without regard to this paragraph but with regard to paragraph (1)) as—

- (A) the amount (if any) by which the taxpayer’s adjusted gross income exceeds **[\$75,000] \$150,000**, bears to
- (B) \$40,000.

* * * * *

[(f) TERMINATION.—This section shall not apply to amounts paid or expenses incurred after December 31, 2001.]

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Subchapter N—Tax Based on Income From Sources Within or Without the United States

* * * * *

PART III—INCOME FROM SOURCES WITHOUT THE UNITED STATES

* * * * *

Subpart A—Foreign Tax Credit

* * * * *

SEC. 904. LIMITATION ON CREDIT.

(a) * * *

* * * * *

(h) COORDINATION WITH NONREFUNDABLE PERSONAL CREDITS.—In the case of an individual, for purposes of subsection (a), the tax against which the credit is taken is such tax reduced by the sum of the credits allowable under subpart A of part IV of subchapter A of this chapter (*other than section 23*). This subsection shall not apply to taxable years beginning during 2000 or 2001.

* * * * *

**Subchapter W—District of Columbia Enterprise
Zone**

* * * * *

**SEC. 1400C. FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT OF
COLUMBIA.**

(a) * * *

* * * * *

(d) CARRYOVER OF CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by section 26(a) for such taxable year reduced by the sum of the credits allowable under subpart A of part IV of subchapter A (other than this section *and section 23*), such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

* * * * *

VII. ADDITIONAL VIEWS

We support the underlying goal of H.R. 622 to help adoptive families meet their expenses, and we agree that additional tax relief can promote that goal. Helping families afford the cost of adopting children into loving homes is clearly a worthwhile policy.

However, we are concerned that H.R. 622, as reported by the Committee, does little to promote the adoption of the many special needs children in foster care. Under current law, the adoption tax credit is limited to "qualified adoption expenses," which are defined primarily as court costs and attorney's fees. This definition severely limits the utilization of the credit by an overwhelming majority of families adopting special needs children. Because State foster care programs cover most of the legal expenses associated with adopting a child from the foster care system, many adoptive families of special needs children have few qualified adoption expenses. However, these families have other significant adoption-related costs, such as home and vehicle modifications, out-of-pocket medical expenses, and in some cases, lost income from work. These expenses are neither reimbursed by the State, nor eligible for the current adoption tax credit.

A report from the U.S. Department of the Treasury released in October, 2000, found that only 15% of all special needs adoptions received any benefit from the current adoption tax credit. Of those few families adopting special needs children that did benefit from the adoption tax credit, 71% reported expenses under the current \$6,000 limit for eligible expenses incurred in connection with a special needs adoption. Therefore, simply raising the limit on eligible expenses to \$10,000 will do next to nothing to help families adopting special needs children. In fact, by increasing the maximum adoption credit for all adoptions without some specific accommodation for special needs adoptions, we may be taking a step backwards. The Treasury report warned that a "decrease in the relative price of adopting foreign children compared to adopting children with special needs decreases the relative incentive to adopt children with special needs."

As of March 31, 1999, there were 560,000 children in our nation's foster care system. Of these, 122,000 were waiting to be adopted (their case plan calls for adoption because they are unable to return home). The vast majority of these children are classified as having special needs, meaning they are more difficult to place for adoption because of their age, medical condition, membership in a minority, being one of a group of siblings awaiting adoption together, or because of a physical, mental or emotional handicap. These special needs children are waiting in line to be adopted, whereas other healthy babies and young children have prospective parents waiting in line for them. Any policy designed to promote adoption should recognize this simple fact.

According to preliminary estimates from the Joint Committee on Taxation, providing more meaningful tax relief to families adopting special needs children would have a relatively modest cost compared to the underlying bill. We therefore look forward to working with the Chairman to improve this legislation as it relates to special needs adoptions. We are encouraged by the Chairman's pledge to carefully consider improvements on this issue as this bill continues through the legislative process.

BEN CARDIN.
SANDER LEVIN.
JOHN LEWIS.
JIM MCDERMOTT.
CHARLES B. RANGEL.
ROBERT T. MATSUI.
LLOYD DOGGETT.
EARL POMEROY.

