

UPDATE: ADOPTION TAX CREDIT

The Health Care and Education Reconciliation Act of 2010, signed into law by President Barack Obama on March 30, 2010, made significant changes to the Federal Adoption Tax Credit. The (3) main changes to the credit are as follows:

- 1.) **Extended**; under prior law, the credit was due to expire after December 31, 2010. The credit has now been extended through December 31, 2011. This means adoptions finalized through December 31, 2011 will still qualify for the credit. It is unknown at this time what will happen with the credit after December 31, 2011. There are numerous possibilities including another extension or the credit dropping back to pre-2001 levels (\$5,000).
- 2.) **Increased Credit**; the credit has been increased for 2010 to \$13,170 (a \$1,000 increase). The credit amount for 2011 will be inflation-adjusted.
- 3.) **Refundable**; under prior law, the Adoption Tax Credit was a non-refundable credit. That is, in one year you could only claim a credit up to the amount of your tax liability for that year. Any credit you could not claim in a year due to tax liability limitations would be carried-forward to the next year, up to 5 years. As a consequence, many adoptive parents had to stretch the credit over multiple years before its full benefit was realized. The Adoption Tax Credit is now a refundable credit for tax years 2010 and 2011. This simply means if you finalize an adoption in 2010, the credit on your 2010 return will be \$13,170 and there would be no stretching of the credit out over multiple years. Many adoptive parents will find this change to be most beneficial as it provides immediate tax relief in the year the adoption is finalized.
- 4.) **Additional Documentation Requirements**; applicable documentation will need to be attached to a tax return claiming the Adoption Tax Credit. The documentation required depends on a number of factors – whether the adoption is final or not, domestic or foreign, and if it is a special needs adoption. Accordingly, since these returns will need documentation attached, electronic filing of any return claiming the adoption tax credit will not be possible. A paper return will need to be signed and mailed – it will take 6-8 weeks to receive a refund from a complete and accurate return with all required documentation.

Please review the "Adoption Tax Credit Q&A" for information on eligibility, limitations, and other information. Updates to this information will be posted as it becomes available. Please contact Jim All, CPA for any further inquiries (614-794-1771, jall@jamisoncpa.com). Fees may apply.