

Adoption Tax Credit – Q&A

What is the Adoption Tax Credit?

The Adoption Tax Credit is a Federal (IRS) tax credit available to qualifying adoptive parents for expenses paid in connection with an adoption. In addition to the tax credit, there is an exclusion from income for adoption assistance payments received from employers.

What does “Tax Credit” mean?

A tax credit is a dollar for dollar reduction off of your tax liability. This is in contrast to a “tax deduction” which is a reduction in taxable income. Tax liability is not what you owe at the end of the year when you file your tax return. Tax liability is your total tax bill for a particular year. For example:

Income	\$75,000
Less: Itemized Deductions	15,000
Less: Personal Exemptions	<u>7,000</u>
Taxable Income	53,000
Tax Liability	7,151

How much is the credit?

For 2009, the credit is set at \$12,150. This means the first \$12,150 you pay in qualifying adoption expenses may be credited dollar for dollar against your tax liability.

My tax liability each year is only \$7,500. Does that mean I only get a credit of \$7,500?

No, you can carry-forward the unused portion of the credit to the next tax year until fully utilized. So, in this example you'd have a credit carry-forward of \$4,650 (\$12,150 - \$7,500) to the next tax year.

I get a refund ever year. Will the Adoption Tax Credit increase my refund?

Yes, it may. Using the same example above with a tax liability of \$7,151, assume the taxpayer had Federal tax withholding of \$8,000. In a “normal” year, the taxpayer would then receive a tax refund of \$849 (\$7,151 - \$8,000). In the year claiming the Adoption Tax Credit, the credit would reduce the tax liability to zero and the taxpayer would receive a refund of \$8,000. In addition, the taxpayer would have a credit carry-forward of \$4,999 (\$12,150 - \$7,151) to the next tax year.

Can I adjust my tax withholdings at work to have less taken out since I will be receiving the Adoption Tax Credit?

Yes, you can change your withholdings to have less tax taken out throughout the year, as opposed to waiting and getting a big refund at the end of the year. Use Form W-4 to adjust your withholdings to the appropriate levels to account for the Adoption Tax Credit.

We file our tax returns separately every year. Can we still claim the Adoption Tax Credit?

No, married taxpayers generally must file a joint return to claim the credit.

What expenses qualify for the credit?

Adoption agency fees, attorney fees, court costs, travel expenses (including meals & lodging) while away from home, and finger-printing/background check costs, are all qualifying expenses. There may be other costs you incur in your adoption that may qualify for the credit.

Are there any income limitations to the credit?

Yes, as with many tax credits, there are income limitations. For 2009, the phase-out of the credit begins with a modified adjusted gross income of \$182,180. The credit is fully phased out with an income of \$222,180.

We have paid expenses this year for our adoption, but we have not finalized our adoption as of the end of the year. Can we claim the credit for the expenses paid this year?

Generally the credit is claimed in the year the adoption is finalized. However, if you have expenses that lag over multiple years, you may be able to claim the credit before finalization. For example, if you paid expenses in 2008 and still had not finalized that adoption effort by the end of 2009, you can claim credit for the expenses paid in 2008 on your 2009 return. There are separate rules for when you can claim the credit for foreign adoptions.

Do I need a Social Security number (SSN) for my child to claim the Adoption Tax Credit?

Yes, your child will need either an SSN or ATIN (Adoption Taxpayer Identification Number) to claim the credit. The ATIN can be acquired to claim the credit in situations where an SSN has not yet been obtained (for example, if the adoption has not yet been finalized). The ATIN can also be used to claim the child as a dependent, to claim the child tax credit, and child care credit.

Are there any other tax credits for adoption?

The State of Ohio offers a \$1,500 tax credit for Ohio residents. The adoption must be final and recognized under Ohio law for you to claim the credit.

This information was provided by Jim All, an adoptive parent and CPA based in Westerville, Ohio. Jim and his wife Jenny have adopted a son through Adoption Circle. Jim may be reached for further questions/information at 614-794-1771 or jall@jamisoncpa.com. Fees may apply.

