

Below are a couple of examples of how the tax credit might benefit families who finalized adoptions in 2014 (these are simplified examples, which do not take into account the Child Tax Credit).

Example 1 — A couple adopted two brothers who had been determined to have special needs. The parents had \$6,500 in federal income tax withheld from their paychecks, and their tax liability is \$7,000, which means they would normally owe \$500 to the IRS. Their adoption tax credit is \$26,380, and they can use \$7,000 (their tax liability) of that with their 2013 taxes. They get a refund of the \$6,500 they had already paid, and can carry over \$19,380 for up to five more years.

Example 2 — A couple adopted three siblings with special needs. They had \$1,000 in federal income tax withheld from their paychecks, and their tax liability is \$0, which means they would receive a refund of \$1,000. They have \$39,570 in the adoption tax credit, but they cannot use it with their 2014 taxes since they have no federal income tax liability. They should still file Form 8839 with their 2014 tax return so that they can establish the credit, and carry it forward for up to five additional years in case their tax liability goes up in the future or the credit becomes refundable.

How the Child Tax Credit and Adoption Credit Interact

Taxpayers who can answer Yes on the last line of the Child Tax Credit Worksheet may be eligible for the Additional Child Tax Credit, which is a refundable credit (meaning they can claim the credit regardless of their tax liability). To claim the Additional Child Tax Credit, parents must complete IRS Form 8812.

Claiming the Credit

To claim the credit, taxpayers will complete a 2014 version of IRS Form 8839 and submit it with their Form 1040 when they file their 2014 taxes. Before filing, taxpayers should review the 2014 Form 8839 instructions carefully to be sure they apply for the credit correctly. The instructions will likely contain a worksheet needed to calculate tax liability and thus how much of the credit will be received. The form and instructions will be available in January 2015 at irs.gov

If you have additional questions on the adoption tax credit, contact the North American Council on Adoptable Children at 651-644-3036 or taxcredit@nacac.org.

2014 Adoption Tax Credit



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Adoption Tax Credit

For adoptions finalized in 2014, there is a federal adoption tax credit of up to \$13,190 per child. The 2014 adoption tax credit is NOT refundable, which means taxpayers can only get the credit refunded if they have federal income tax liability. The credit is paid one time *for each adopted child*, and should be claimed when taxpayers file taxes for 2014.

To be eligible for the credit, parents must:

Have adopted a child other than a stepchild — Children who receive a monthly adoption subsidy payment have been determined by the state to have special needs, so these children are eligible for the full tax credit without documenting expenses. Families who adopted children without special needs are also eligible, but need to have (and be able to document, if asked) qualified adoption expenses.

- ***Be within the income limits*** —

How much of the credit parents claim is affected by income. In 2014, families with a modified adjusted gross income below \$194,780 can claim full credit. Those with incomes above \$237,880 cannot claim the credit. Those with incomes from \$197,880 to \$237,880 can claim partial credit.

Adoption Tax Credit Continued

Families who finalize the adoption of a child with special needs in 2014 can claim the full credit of \$13,190 on the line that asks for expenses—whether or not they had any expenses.

Example — A woman adopts three of her grandchildren from foster care and the state paid all of the fees. All three children receive monthly adoption assistance benefits and thus are considered special needs. The grandmother earns less than \$197,880 so can claim the full credit of \$13,190 per child for a total of \$39,570. How much the grandmother actually receives, however, will depend on her tax liability.

Other adopters can claim a credit based on their qualified adoption expenses, which are the reasonable and necessary expenses paid to complete the adoption as long as those expenses are not reimbursed by anyone else. If the expenses are less than \$13,190, the adopters claim only the amount of the expenses. If expenses exceed \$13,190, the maximum to be claimed is \$13,190 per child.

Example — A couple adopted two children from China and had \$40,000 in legal, travel, and agency fees. They received a grant of \$20,000, leaving them with \$20,000 in qualified adoption expenses. They can claim only \$20,000 (not the full \$26,380 they might have been eligible for had their expenses been higher). If their modified adjusted gross income was between \$197,880 and \$237,880, they would receive only a portion of the credit, since the credit begins to phase out at incomes of \$197,880.

Adoption Tax Credit Continued

Just because a child is disabled does not mean the child is special needs under the tax credit. No child adopted internationally is considered special needs for the adoption tax credit. Not even every child adopted from foster care is considered special needs (about 10 percent of children adopted from care do not receive adoption assistance support). **Those who do not receive any support from the adoption assistance program are likely not to have been determined to have special needs.**



How much, if any, of the adoption tax credit a parent will receive depends on their federal income tax liability in 2014 (and the next five years). In one year, taxpayers can use as much of the credit as the full amount of their federal income tax liability, which is the amount on line 46 of the Form 1040 less certain other credits (see Child Tax Credit below). Even those who normally get a refund may still have tax liability and could get a larger refund with the adoption tax credit. Taxpayers have six years (the year they first claimed the credit plus five additional years) to use the credit.