

Adoption Tax Credit 2017

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Claiming the Federal Adoption Tax Credit for 2017

Updated March 2017

- For more about the adoption tax credit, see our [main page](#) on the subject and our [FAQS](#)
- If you finalized your adoption in a year other than 2017, please use the links in the menu to go to the page of the year that you adopted.

For adoptions finalized* in 2017, the adoption tax credit is up to \$13,570 per child.

The 2017 adoption tax credit is *not* a refundable credit, which means you only benefit from the credit if you have federal income tax liability (*see below*).

**Please note that prospective adopters who have non-finalized US adoptions may be able to claim an adoption tax credit before their adoptions are finalized. See the [main adoption tax credit page](#) for more on non-finalized US adoptions.*

The credit is a one-time credit *for each child*, and the credit for 2017 adoptions should be claimed when you file taxes for 2017 (typically in early 2018).

To be eligible for the credit:

- ***You have adopted a child other than a stepchild***
- And the child must be under 18 (or be physically or mentally unable to take care of him or herself).

How Does My Income Affect My Benefit?

How much you will benefit from the credit depends on your income and federal income tax liability—which is the amount you are responsible for in federal income

taxes. Those who have lower incomes may not be able to use the credit at all and those with moderate incomes often can't use the whole amount.

For those with higher incomes, the credit phases out. For 2017, those with modified adjusted gross incomes above \$243,540 cannot claim the credit. Those with incomes from \$203,540 to \$243,540 can claim a portion of the credit.

The Amount of Credit to Be Claimed

Special Needs Adoptions

If you finalized in 2017 the adoption of a child that the state has determined to have special needs (*meaning the child receives adoption assistance/adoption subsidy benefits*), you can claim the maximum credit of \$13,570 as your qualified adoption expenses—whether or not you had any expenses. (This is not, though, the amount will necessarily be able to use.)

For purposes of the adoption tax credit, an adoption is considered a special needs adoption if a US child adopted from foster care (and some private domestic adoptions) receives adoption subsidy or adoption assistance benefits (which can include a monthly payment, Medicaid, or reimbursement of nonrecurring expenses). The instructions for the 2016 tax credit (the 2017 instructions aren't out yet) explain that to be considered a child with special needs, the child must meet all three of the following characteristics:

- “The child was a citizen or resident of the United States or its possessions at the time the adoption effort began (US child).
- A state (including the District of Columbia) has determined that the child cannot or should not be returned to his or her parents' home.
- The state has determined that the child will not be adopted unless assistance is provided to the adoptive parents. Factors used by states to make this determination include:
 - The child's ethnic background and age,
 - Whether the child is a member of a minority or sibling group, and

- Whether the child has a medical condition or a physical, mental, or emotional handicap.”

For purposes of the adoption tax credit, a child’s having a disability does *not* mean it is a special needs adoption. 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). **In our experience, the only adoptions that are considered special needs for purposes of the adoption tax credit are those where the families receives benefits from the adoption assistance/adoption subsidy program.**

Bottom line, if your child does not receive adoption subsidy/adoption assistance benefits, you will likely have to have qualified adoption expenses to claim the adoption tax credit.

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 these are considered special needs adoptions. The grandmother earns less than \$203,540 so can claim the full credit of \$13,570 per child for a total of \$40,710. How much the grandmother actually benefits, however, will depend on her tax liability (explained below).

Other Adoptions

For all other adoptions (except those where you adopt your spouse’s child, which are not eligible for the credit), you can claim a credit based on your qualified adoption expenses, which are the reasonable and necessary expenses paid to complete the adoption as long as those expenses are not reimbursed by your employer or the government. If your adoption-related expenses are less than \$13,570, you claim only the amount of the expenses. If expenses exceed \$13,570, the maximum you claim is \$13,570 per child.

Please note that international adoptions cannot be claimed until the adoption is finalized. For US domestic adoptions, you can claim qualified adoption expenses for non-finalized or never finalized adoptions the year after you incur them.

Example 1 — A couple finalized the adoption of two children from China and had \$25,000 in legal, travel, and agency fees between 2015 and 2017. They can claim only \$25,000 (not the full \$27,140 they might have been eligible for had their expenses been higher). They are able to claim the credit with their 2017 taxes because the adoption finalized in 2017.

Example 2 — A family begins adopting a US infant in 2015 and pays \$4,000 in expenses in 2015, \$5,000 in 2016, and \$7,000 in 2017. The adoption finalizes in 2017. The parents must file for the \$4,000 spent in 2015 on their 2016 taxes. They cannot claim the \$5,000 and \$7,000 until they file their 2017 taxes. The most they can receive is the 2017 maximum of \$13,190.

When to Claim the Credit

- Parents who complete a special needs adoption (meaning the adoption of a child who receives adoption assistance/adoption subsidy benefits) claim the credit the year of finalization.
- Parents who adopt internationally claim the credit the year of finalization.
- Parents who adopted—or are in the process of adopting—from the U.S. and are claiming qualified adoption expenses can claim the credit the year of finalization or, if the adoption is not finalized, the year after they spent the funds.

Example — A family begins adopting a U.S. infant in 2015 and pays \$4,000 in expenses in 2014, \$5,000 in 2016, and \$3,000 in 2017. The adoption is finalized in 2017. The parents must file for the \$4,000 spent in 2015 on their 2016 taxes. They claim the \$5,000 and \$3,000 when they file their 2017 taxes. The maximum they could claim is the 2017 limit of \$13,570.

How Much Will I Benefit?

Claiming the adoption tax credit (as explained above) is different than being able to benefit from the credit. How much, if any, of the adoption tax credit you will use depends on your federal income tax liability in 2017 (and the next five years).

Federal tax liability is the amount you are responsible for in federal income taxes. If you have ever done your taxes manually, it's roughly the amount you would look up in the tax tables in the back of the instructions. If you want to see what your tax liability was in 2016, you can look at line 47 of Form 1040 (or line 30 of Form 1040A). If the line is blank or zero, you had no federal income tax liability that year.

You have six years (the year you first claimed the credit plus five additional years) to use the credit.

If you have no tax liability you will not benefit from the adoption credit this year. If you would otherwise file taxes, we would still encourage you to claim the adoption tax credit with your taxes. You will then be able to carry the credit forward to future years in case the credit becomes refundable or your tax situation changes. (If a tax preparer wants to charge extra to file for the adoption tax credit and you won't benefit at all with your 2017 taxes, you might want to wait and amend your taxes if the credit is made refundable or your tax liability increases.)

Below are a couple of examples of how the tax credit might benefit families who finalized adoptions in 2017. (These are simplified examples, which do not take into account the child tax credit explained below.)

Example 1— A couple adopted two brothers from foster care who were 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 an additional \$500 to the IRS. Their adoption tax credit is \$27,140 (\$13,570 per child), and they can use \$7,000 (their tax liability) of that with their 2017 taxes. They get a refund of the \$6,500 they had already paid, and they do not pay the \$500 they would

have owed. They carry over \$20,140 to the next year (which can be used for up to five more years).

Example 2 — A single woman adopted three siblings from foster care in 2017 and the state pays adoption assistance (which means the state determined these were special needs adoptions). She had \$1,000 in federal income tax withheld from her paychecks, and her tax liability is \$0, She could claim \$40,710 for the adoption tax credit, but cannot use it with her 2017 taxes since she has no federal income tax liability. She would receive her \$1,000 refund whether or not she claims the adoption tax credit. If her tax preparer doesn't charge her more, she should claim the credit to establish it, in case she'll be able to use in over the next five years.

If she does not claim the adoption tax credit with her 2017 tax return to establish the credit, she should monitor her tax situation each year (in case her income goes up or her income tax liability goes up). If she would benefit, she could amend her 2017 taxes and any future years to use the credit.

Interaction with the Child Tax Credit

If parents can claim their child as a dependent, then they should also look into the child tax credit. The child tax credit and the adoption tax credit interact and may reduce the child tax credit a family can claim. If you are doing your taxes manually, to determine the amount of the child tax credit you can use, you must complete the Child Tax Credit Worksheet in IRS Publication 972. 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 schedule 8812.

Claiming the Adoption Tax Credit

To claim the adoption tax credit, you will complete a 2017 version of IRS Form 8839 and submit it with your Form 1040 when you file your 2017 taxes. If you use software

or a tax preparer, they will generate this form for you. Before filing, you should review the 2017 Form 8839 instructions carefully to be sure you apply for the credit correctly. The instructions contain a worksheet needed to calculate tax liability and other credits to determine how much of the adoption tax credit will be used. The form and instructions will be posted at [irs.gov](https://www.irs.gov) and in the [Forms section](#) of the NACAC web site once available.

If your tax preparer is not familiar with the adoption tax credit, you can share the instructions with them.

What If I Have Additional Questions?

Read the answers to our [frequently asked questions](#).

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