

Big Tax Break for Adoptive Parents

Article Highlights:

- Qualifying Adoptions
- Credit Amount
- Credit Carryover
- Qualifying Expenses
- High-Income Credit Phase-out
- Employer Adoption-Assistance Program

If you are an adoptive parent or are planning to adopt a child, you may qualify for a substantial income-tax credit. The amount of the credit is based on any expenses incurred that are directly related to the adoption of a child under the age of 18 or a person who is physically or mentally incapable of self-care.

This is a 1:1 credit for each dollar of qualified expenses up to a maximum for the year, which is \$13,570 for 2017 (up from \$13,460 in 2016). The credit is nonrefundable, which means it can only reduce tax liability to zero (as opposed to potentially resulting in a cash refund). But the good news is that any unused credit can be used for up to five years to reduce future tax liability.

Qualified expenses generally include adoption fees, court costs, attorney fees and travel expenses that are reasonable, necessary and directly related to the adoption of the child, and may be for both domestic and foreign adoptions; however, expenses related to adopting a spouse's child are not eligible for this credit. When adopting a child with special needs, the full credit is allowed whether or not any qualified expenses were incurred. A child with special needs is, among other requirements, a child who the state has determined (a) cannot or should not be returned to his or her parents' home and (b) that the child won't be adopted unless assistance is provided to the adoptive parents.

The credit is phased out for higher-income taxpayers. For 2017, the AGI (computed without foreign-income exclusions) phase-out threshold is \$203,540, and at the AGI of \$243,540, the credit is completely phased out. Unlike most phase-outs, this one is the same regardless of filing status. However, the credit cannot be claimed by taxpayers using the filing status *married filing separately*.

If your employer has an adoption-assistance program, up to \$13,570 of reimbursements by the employer are excludable from income. Both the tax credit and the exclusion may be claimed, though not for the same expenses.

If you think you qualify for this credit or are planning an adoption in the future, please contact this office for further credit details and to find out how this credit can apply to your particular circumstances.