The Adoption Tax Credit

by Steve Smith

I have good news for those who have been contemplating adopting a child, but were hesitating because of the often-high "transaction" costs involved. Uncle Sam is willing to help defray those costs by giving those who adopt a tax credit.

The adoption tax credit is nothing new. It has been around since the late 1990s, and the amount of the credit has increased steadily since it was introduced. What is new is that, thanks to the Affordable Care Act, the credit transformed in 2010 from a nonrefundable credit (which was no help at all if you did not owe any tax) to a refundable credit (which means the IRS will add the credit to your refund, so you are sure to benefit from it even if you do not owe any tax). That's a **huge** improvement!

Taxpayers may claim the credit for qualified adoption expenses of up to $13,170 for each eligible child they adopt. Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are directly related to the legal adoption of an eligible child. An eligible child is an individual who has not attained the age of 18 as of the time of the adoption or who is physically or mentally incapable of caring for himself. If you adopt a special needs child, you may qualify for the full amount of the credit even if you paid few or no adoption-related expenses.

The adoption tax credit is not available for the adoption of stepchildren. Since a lot of military taxpayers adopt their stepchildren, that's worth noting. Nor does it apply to surrogate arrangements.

Those claiming the credit cannot electronically file, because they must attach a copy of the adoption order or decree for finalized US adoptions to a paper return. More forms are required for finalized foreign adoptions. See IRS Notice 2010-66 for details.

You can claim the adoption tax credit by completing Form 8839 and attaching it to Form 1040. When you can claim the credit depends on when the adoption was finalized and whether the child is a U.S. citizen/resident alien or a foreign national. This is where the rules get complicated, and you should consult with a Legal Assistance Attorney.

For more information on the adoption tax credit, check out the Frequently Asked Questions posted on the IRS web site at:

http://www.irs.gov/individuals/article/0,,id=231663,00.html

You can also e-mail tax questions to us at: *tax@eur.army.mil*

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NEED TAX HELP?

Free tax services are available all year long at the Kaiserslautern Legal Services Center. If you need help preparing or amending a federal or state income tax return or have tax questions, call DSN 483-8848 or Civilian 0631-411-8848, and ask to speak to Mr. Donald Davis.