

How can the Adoption Tax Credit help me?

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So, you are asking how it works and can it actually help me? Whether you are adopting through the foster care system, privately, domestically, or internationally, the Adoption Tax Credit can be an important part of helping families adopt.

An adoptive family can apply this credit toward their federal tax liability. Meaning, it can reduce what they owe in federal income taxes for the year. It is not a refundable tax credit; however, it is still a great credit at \$13,190 for 2014. The credit will be indexed for inflation for the years following. Unfortunately, at this point since it is not refundable it will not cover self-employment tax.

Who qualifies for the credit?

1. **Private, Domestic, or International Adoption:** You qualify for the Adoption Tax Credit if you adopted a child (except spouse's child) and paid out-of-pocket expenses relating to the adoption. The amount of the tax credit you qualify for is directly related to how much you spent on adoption-related expenses. Income can also be excluded as taxable through an employer-provided adoption benefit program. Both a credit and exclusion may be claimed for the same adoption; however, both cannot be claimed for the same expense.
2. No international adoption is considered special needs for IRS purposes, so it will be for amount of qualified expenses.
3. **Foster Adoption:** If you adopt a special needs child through foster care, you are entitled to claim the full amount of the adoption credit without any out of pocket expenses. Each state has different criteria that qualify a child as special needs. The special needs declaration must come from the state in which the adoption was final. The "Subsidy Agreement" has the determination of special needs that the IRS accepts. Some states call it the "Adoption Eligibility Assistance Determination."

How does the Adoption Tax Credit work?

1. On Line 55 of your Federal 1040 is your tax liability. The difference between your tax liability and your federal withholding is either what you get as a refund or what you owe when you do your tax return.
2. The Adoption Tax Credit comes in on Line 53 from Form 8839 and takes care of your tax liability up to the \$13,190 for 2014. You will get your withholding back and the child tax credit drops down to the additional child tax credit (if you qualify).
3. If you do not use all of the credit in the first year you can carry it forward for up to 5 years.
4. In the event it does become refundable again you will get the remaining amount you have not used as a refund.

What documentation do I need to keep for the IRS?

1. Final Judgment of Adoption (**all adoptions**)
2. Adoption Assistance Eligibility Determination (Subsidy Agreement) that declares the child special needs if claiming credit for a child declared special needs by your state through foster care. (**foster adoptions**)
3. A home study/placement agreement completed by an authorized placement agency. (**all adoptions except foster**)
4. All documentation of paid qualified expenses. (**all adoptions except foster**)
5. All documents must be signed and dated. (**all adoptions**) The IRS will not accept any Home study/Placement agreement, Judgment of Adoption, or Subsidy agreement/Eligibility agreement without it being signed and dated by the proper authorities.

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Understanding the Adoption Tax Credit

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Whether you are adopting through the foster care system, privately, domestically, or internationally, the Adoption Tax Credit is an important part of helping families adopt. The lives of children and the families who choose to adopt are impacted forever. A 2006 study, cited by the Children's Bureau, found that "approximately \$65,422 to \$126,825 is saved for every child who is adopted rather than placed in long-term foster care."

The Adoption Tax Credit was made permanent at the beginning of 2013 by the American Taxpayer Relief Act of 2012 (H.R. 8), legislation that included a permanent extension of the Adoption Tax Credit.

An adoptive family can apply this credit toward their federal tax liability. Meaning, it can reduce what they owe in federal income taxes for the year. It is not a refundable tax credit; however, it is still a great credit at \$12,970.00 for 2013. The credit will be indexed for inflation for the years following.

You qualify for the Adoption Tax Credit if you adopted a child and paid out-of-pocket expenses relating to the adoption. The amount of the tax credit you qualify for is directly related to how much you spent on adoption-related expenses. Income can also be excluded as taxable through an employer-provided adoption benefit program. Both a credit and exclusion may be claimed for the same adoption; however, both cannot be claimed for the same expense.

Qualified expenses include reasonable and necessary expenses directly related to, and whose principal purpose is for, the legal adoption of an eligible child. Examples of qualified expenses include adoption fees, court costs, attorney fees, travel expenses, and re-adoption expenses to adopt a foreign child. The only expenses that do not qualify are the adoption of a child of your spouse. If you have received grant money from an agency in the adoption process, that grant money must be taken off of the top of the total expenses before claiming the Adoption Tax Credit.

If you adopt a special needs child through foster care, you are entitled to claim the full amount of the adoption credit. Even if your out-of-pocket expenses are less than the tax credit amount or you have no expenses. Each state has different criteria that qualify a child as special needs. The special needs declaration must come from the state in which the adoption was final. The "Subsidy Agreement" has the determination of special needs that the IRS accepts. Some states call it the "Adoption Eligibility Assistance Determination." No international adoption is considered special needs for IRS purposes.

The dollar amounts according to the year that your adoption was final are why the credit is so important. The dollar amounts will be indexed for inflation each year.

Adoption Tax Credit Amounts

2014: \$13,190, non-refundable

2013: \$12,970, non-refundable

2012: \$12,650, non-refundable

2011: \$13,360, refundable

2010: \$13,170, refundable

2009: \$12,150, non-refundable

2008: \$11,650, non-refundable

Adoption Tax Credit Income Phase-out Ranges

2014: \$197,880 - \$237,880

2013: \$194,580 - \$234,580

2012: \$189,710 - \$229,710

2011: \$185,210 - \$225,210

2010: \$182,520 - \$222,520

2009: \$182,180 - \$222,180

2008: \$174,730 - \$214,730

The Adoption Tax Credit is a credit, not a deduction. It lowers the amount of your tax liability, not your taxable income. The calculation is done on the second page of your Federal 1040 tax return. After your taxable income and total tax is determined, the Adoption Tax Credit comes in and takes care of your tax liability before it gets to your withholding. It also takes the Child Tax Credit, which is not refundable, and drops it down to Additional Child Tax Credit (depending on your income level) and makes it refundable.

If there is any remaining credit not used in the year you file for the Adoption Tax Credit, it can be carried forward for up to five years. Even if you have zero tax liability, I suggest to all my clients, and in each conference, radio show, and webinar that we do, that you take the credit anyway. **In the event that the Adoption Tax Credit is made refundable again (in the five years after you take the credit)**, you should carry the credit forward each year and the remaining credit will be refunded to you.

What else is so great about this credit? If you have adopted in the last five years you can go back, amend your returns, and carry the credit forward so that you can benefit from the credit if you had not previously taken the credit.

The documentation required to claim the Adoption Tax Credit:

- Final Judgment of Adoption
- Adoption Assistance Eligibility Determination (Subsidy Agreement), if claiming credit for a child declared special needs by your state through foster care
- A home study/placement agreement completed by an authorized placement agency
- All documentation of qualified expenses.
- All documents must be signed and dated. The IRS will not accept any Home study/Placement agreement, Judgment of Adoption, or Subsidy agreement/Eligibility agreement without it being signed and dated by the proper authorities.

There have been two bills introduced to help make the credit refundable again. We encourage everyone to contact your Representatives and Senators to ask them to co-sponsor these bills. The more that co-sponsor these bills, the more likely they are to pass. Identify the bills by name and number. Explain to your Representatives and Senators why it is so important that the Adoption Tax Credit be made refundable again.

H.R. 2144 and S.1056 are Bills in the House and Senate that is titled the
"Adoption Tax Credit Refundability Act"

113th CONGRESS-1st Session

H. R. 2144 & S.1056

To amend the Internal Revenue Code of 1986 to provide for a refundable adoption tax credit.

IN THE HOUSE OF REPRESENTATIVES & IN THE SENATE OF THE UNITED STATES

May 23, 2013

Mr. BRALEY of Iowa introduced the following bill (HR.2144); which was referred to the Committee on Ways and Means.

Mr. CASEY (for himself, Ms. LANDRIEU, and Mr. BLUNT) introduced the following bill (S.1056); which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide for a refundable adoption tax credit.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Adoption Tax Credit Refundability Act of 2013'.

SEC. 2. REFUNDABLE ADOPTION TAX CREDIT.

(a) Credit Made Refundable-

My name is Becky Wilmoth. I am an Enrolled Agent and one of the Adoption Tax Credit Specialists with Bills Tax Service. We have two offices, one in Centralia and one in O'Fallon, IL. We do returns for all 50 states. I have been blessed by adoption twice. I have also been in the youth, jail, and prison ministry for many years. My email is becky@billstax2.com or join us on Facebook at Adoption Tax Credit at Bills Tax Service of Centralia LLC and Bills Tax Service.

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