

Summary of Adoption Tax Benefits – from IRS Publication 968.

For more info – go to www.irs.gov.

Benefit 1 – Adoption Tax Credit

- Tax credit of \$10,160 for qualifying expenses to adopt an eligible child.
- Tax credit is an amount you deduct from your tax liability.
- Subject to dollar limit and income limit.

Benefit 2 – Employer Adoption Expenses Re-imbursed Excluded from Income

- Up to \$10,160 paid or reimbursed by your employer under an adoption assistance program may be excludable from your gross income.
- This means that these monies paid to you by your employer will not be subject to federal income tax.
- Restricted if you own more than 2% of stock of employer.
- Subject to dollar limit and income limit.
- If your employer does not have a specific adoption assistance plan – then there is no way you can utilize this benefit.

- ✓ You may claim both a Credit and an Income Exclusion – but not for the same expenses.
- ✓ Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including meals and lodging) and other expenses related to the legal adoption of a child.
- ✓ The amount of the Adoption Credit or Exclusion is limited to \$10,160 for each effort to adopt an eligible child. An attempt that leads to the successful adoption of a child and any unsuccessful attempt to adopt a different child are treated as one effort.
- ✓ The \$10,160 amount is the maximum amount of qualifying expenses taken into account over all tax years for the adoption effort.
- ✓ For 2003, the income limit on the Credit and Exclusion is \$152,390 of modified Adjusted Gross Income (AGI). Above this amount, the Credit or Exclusion is reduced and is fully eliminated if modified AGI exceeds \$192,390.
- ✓ For foreign adoptions, you must take the Credit or Exclusion in the year the adoption becomes final.
- ✓ To take the Credit or Exclusion, file form 8839 with your Form 1040 or 1040A.
- ✓ Must file a joint return to take the Credit or Exclusion.
- ✓ Beginning in 2003, \$10,160 will be allowed for the Credit and Exclusion for the adoption of a child with Special Needs even if you do not have any qualifying expenses.