**The Adoption Tax Credit Can Help You!**

Becky Wilmoth, Enrolled Agent

Adoption Tax Credit Specialist® at Bills Tax Service



While the number of international adoptions decline and the number of children in foster care increase there is a desperate need to help families who are adopting or thinking about adopting to understand the financial resources available. For this reason, it is very important that families understand that whether they are adopting through the foster care system, domestically, or internationally, that the Adoption Tax Credit can be an important part of helping them adopt.

An adoptive family can apply this credit toward their federal tax liability when they file their tax return. Meaning, it can reduce what they owe in federal income tax for the year. It is not a refundable tax credit at this date; however, it is still alive, permanent, and a great credit at $14,080 for 2019. Since it is not refundable at this time, it will not cover self-employment tax, early pension distribution penalty, or first-time homebuyer payback. When the Adoption Tax Credit is refundable it will help many more families in the low to medium income range.

**Who qualifies for the credit?**

1. 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 expenses.
2. If you adopt a special needs child through foster care, you may be entitled to claim the full amount of the adoption tax credit. 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.”
3. No international adoption is considered special needs for IRS purposes, so it will be for *amount of qualified expenses only.*

**How does the Adoption Tax Credit work?**

1. Line 11 of your 2018 Federal 1040 shows 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 12 of your 1040 (From Form 8839 to Schedule 3 to Line 12) and takes care of your tax liability **up to $14,080** for 2019. You will get your withholding back(if tax liability is less than maximum credit amount) and child tax credit drops down to 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 this credit does become refundable again you will get the remaining amount you have not used as a refund. For this reason, it is very important to have all of the correct documentation in order.
5. The Adoption Tax Credit is a nonrefundable credit at this point. It still helps many families, however it helps so many more families when it is refundable. Nonrefundable credits are a great way to decrease your tax bill. A nonrefundable credit is subtracted from your income tax liability, up to the total amount you owe. But unlike a refundable tax credit, a nonrefundable credit cannot reduce your tax balance beyond zero.
6. For tax year 2019, the MAGI phaseout begins at $211,160 and ends at $251,160.

**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.

**How can I help get the Adoption Tax Credit refundable again?**

1. Find your Senators and contact them through email or social media and ask them to put their support behind the bipartisan Adoption Tax Credit Refundability Act by cosponsoring (S.937).
2. Legislators get calls & emails every day about important policy issues. Make sure and help us advocate for it to be made refundable again and that they know this one is important to you.

*Becky Wilmoth* is an Enrolled Agent and Adoption Tax Credit Specialist® at Bills Tax Service. She is a member of National Foster Parent Association, National Council for Adoption/Adoption League, North American Council on Adoptable Children, Kaskaskia College Business/Accounting Advisory Board, National Association of Enrolled Agents, National Association of Tax Professionals, and Illinois Society of Enrolled Agents. She is a guest writer and guest speaker at national adoption conferences, webinars, internet radio, blogs, and podcasts. Bills Tax Service is a member of Christian Alliance for Orphans. Many at Bills Tax Service have been blessed by adoption!

*To speak to an Adoption Tax Credit Specialist® call or email us.*

[*www.billstaxservice.com*](http://www.billstaxservice.com/)

*becky@billstax2.com*

*1-888-7ADOPT0*

