

Iowa Foster and Adoptive Parents Association

6864 NE 14th Street, Suite 5
Ankeny, Iowa 50021
800-277-8145 www.ifapa.org



Tax Information for: Foster/Adoptive/Kinship Parents

The following general information is gathered from the Internal Revenue Service website. If you have more specific questions, please visit their website www.irs.gov or see your tax professional for more information.

- **ARE FOSTER CARE SUBSIDY PAYMENTS CONSIDERED INCOME? – Page 2**
- **ARE ADOPTION SUBSIDY PAYMENTS CONSIDERED INCOME? – Page 2**
- **THE RULES FOR CLAIMING AN EXEMPTION FOR A DEPENDENT – Page 2-4**
- **ADOPTION TAX CREDIT – Page 4-6**
- **RAISING GRANDCHILDREN – HOW IT AFFECTS YOUR TAXES – Page 6-7**

ARE FOSTER CARE SUBSIDY PAYMENTS CONSIDERED INCOME?

Foster care providers. Payments you receive from a state, political subdivision, or a qualified foster care placement agency for providing care to qualified foster individuals in your home generally are not included in your income. However, you must include in your income payments received for the care of more than 5 individuals age 19 or older and certain difficulty-of-care payments.

A qualified foster individual is a person who:

1. Is living in a foster family home, and
2. Was placed there by:
 - a. An agency of a state or one of its political subdivisions, or
 - b. A qualified foster care placement agency.

Difficulty-of-care payments. These are additional payments that are designated by the payer as compensation for providing the additional care that is required for physically, mentally, or emotionally handicapped qualified foster individuals. A state must determine that the additional compensation is needed, and the care for which the payments are made must be provided in your home.

You must include in your income difficulty-of-care payments received for more than:

- 10 qualified foster individuals under age 19, or
- 5 qualified foster individuals age 19 or older.

Maintaining space in home. If you are paid to maintain space in your home for emergency foster care, you must include the payment in your income.

ARE ADOPTION SUBSIDY PAYMENTS CONSIDERED INCOME?

Payments you receive from a state or a government child welfare agency for adoption assistance payments and related subsidies for adopted children, are not included in your taxable income.

OVERVIEW FOR CLAIMING AN EXEMPTION FOR A DEPENDENT

Caution. This table is only an overview of the rules.

- You cannot claim any dependents if you, or your spouse if filing jointly, could be claimed as a dependent by another taxpayer.
- You cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.
- You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico.¹
- You cannot claim a person as a dependent unless that person is your **qualifying child** or **qualifying relative**.

Tests To Be a Qualifying Child	Tests To Be a Qualifying Relative
<ol style="list-style-type: none"> 1. The child must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them. 2. The child must be (a) under age 19 at the end of the year and younger than you (or your spouse, if filing jointly), (b) under age 24 at the end of the year, a full-time student, and younger than you (or your spouse, if filing jointly), or (c) any age if permanently and totally disabled. 3. The child must have lived with you for more than half of the year.² 4. The child must not have provided more than half of his or her own support for the year. 5. The child is not filing a joint return for the year (unless that return is filed only as a claim for refund). <p>If the child meets the rules to be a qualifying child of more than one person, only one person can actually treat the child as a qualifying child. See the Special Rule for Qualifying Child of More Than One Person to find out which person is the person entitled to claim the child as a qualifying child.</p>	<ol style="list-style-type: none"> 1. The person cannot be your qualifying child or the qualifying child of any other taxpayer. 2. The person either (a) must be related to you in one of the ways listed under Relatives who do not have to live with you, or (b) must live with you all year as a member of your household² (and your relationship must not violate local law). 3. The person's gross income for the year must be less than \$3,700.³ 4. You must provide more than half of the person's total support for the year.⁴

¹There is an exception for certain adopted children.

²There are exceptions for temporary absences, children who were born or died during the year, children of divorced or separated parents or parents who live apart, and kidnapped children.

³There is an exception if the person is disabled and has income from a sheltered workshop.

⁴There are exceptions for multiple support agreements, children of divorced or separated parents or parents who live apart, and kidnapped children.

Age Test

To meet this test, a child must be:

- Under age 19 at the end of the year and younger than you (or your spouse, if filing jointly),
- A full-time student under age 24 at the end of the year and younger than you (or your spouse, if filing jointly), or
- Permanently and totally disabled at any time during the year, regardless of age.

Full-time student. A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

Student defined. To qualify as a student, your child must be, during some part of each of any 5 calendar months of the year:

1. A full-time student at a school that has a regular teaching staff, course of study, and a regularly enrolled student body at the school, or
2. A student taking a full-time, on-farm training course given by a school described in (1), or by a state, county, or local government agency.

The 5 calendar months do not have to be consecutive.

School defined. A school can be an elementary school, junior or senior high school, college, university, or technical, trade, or mechanical school. However, an on-the-job training course, correspondence school, or school offering courses only through the Internet does not count as a school.

Vocational high school students. Students who work on "co-op" jobs in private industry as a part of a school's regular course of classroom and practical training are considered full-time students.

Permanently and totally disabled. Your child is permanently and totally disabled if both of the following apply.

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
- A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

Residency Test

To meet this test, your child must have lived with you for more than half of the year. There are exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.

Temporary absences. Your child is considered to have lived with you during periods of time when one of you, or both, are temporarily absent due to special circumstances such as:

- Illness,
- Education,
- Business,
- Vacation, or
- Military service.

Death or birth of child. A child who was born or died during the year is treated as having lived with you all year if your home was the child's home the entire time he or she was alive during the year. The same is true if the child lived with you all year except for any required hospital stay following birth.

Child born alive. You may be able to claim an exemption for a child who was born alive during the year, even if the child lived only for a moment. State or local law must treat the child as having been born alive. There must be proof of a live birth shown by an official document, such as a birth

ADOPTION TAX CREDIT

You may be able to take a tax credit of up to \$13,360 for qualified expenses paid to adopt an eligible child. The credit may be allowed for the adoption of a child with special needs even if you do not have any qualified expenses.

If your modified adjusted gross income (AGI) is more than \$185,210, your credit is reduced. If your modified AGI is \$225,210 or more, you cannot take the credit.

Qualified adoption expenses. Qualified adoption expenses are reasonable and necessary expenses directly related to, and whose principal purpose is for, the legal adoption of an eligible child. These expenses include:

- Adoption fees,
- Court costs,
- Attorney fees,
- Travel expenses (including amounts spent for meals and lodging) while away from home, and
- Re-adoption expenses to adopt a foreign child.

Nonqualified expenses. Qualified adoption expenses do not include expenses:

- That violate state or federal law,
- For carrying out any surrogate parenting arrangement,
- For the adoption of your spouse's child,
- For which you received funds under any federal, state, or local program,
- Allowed as a credit or deduction under any other federal income tax rule, or
- Paid or reimbursed by your employer or any other person or organization.

Eligible child. The term "eligible child" means any individual:

- Under 18 years old, or
- Physically or mentally incapable of caring for himself or herself.

Child with special needs. An eligible child is a child with special needs if all three of the following apply.

1. The child was a citizen or resident of the United States (including U.S. possessions) at the time the adoption process began.
2. A state (including the District of Columbia) has determined that the child cannot or should not be returned to his or her parents' home.
3. The state has determined that the child will not be adopted unless assistance is provided to the adoptive parents. Factors used by states to make this determination include:
 - a. The child's ethnic background,
 - b. The child's age,
 - c. Whether the child is a member of a minority or sibling group, and
 - d. Whether the child has a medical condition or a physical, mental, or emotional handicap.

When to take the credit. Generally, until the adoption becomes final, you take the credit in the year after your qualified expenses were paid or incurred. If the adoption becomes final, you take the credit in the year your expenses were paid or incurred. See the instructions for Form 8839 for more specific information on when to take the credit.

Foreign child. If the child is not a U.S. citizen or resident at the time the adoption process began, you cannot take the credit unless the adoption becomes final. You treat all adoption expenses paid or incurred in years before the adoption becomes final as paid or incurred in the year it becomes final.

Substantiation requirements. You must include a copy of one or more adoption-related documents with your return to claim the credit.

Adoption finalized in the United States. For a domestic or foreign adoption finalized in the United States, you must provide a copy of an adoption order or decree.

Domestic adoptions that are not final. For domestic adoptions that are not final, you must include an adoption taxpayer identification number, obtained for the child, on your tax return or provide a copy of one of the following documents.

1. A home study completed by an authorized placement agency.
2. A placement agreement with an authorized placement agency.
3. A document signed by a hospital official authorizing the release of a newborn child from the hospital to you for legal adoption.
4. A court document ordering or approving the placement of a child with you for legal adoption.
5. An original affidavit or notarized statement, signed under penalties of perjury, from an adoption attorney, government official, or other person, stating that he or she (a) placed or is placing a child with you for legal adoption or (b) is facilitating the adoption process for you in an official capacity.

Adoptions of special needs children. If you are adopting a special needs child, you also must attach a copy of the state determination of special needs to your tax return.

How to take the credit. To take the credit, you must complete Form 8839 and attach it and your adoption-related documents to your Form 1040. Include the credit in your total for Form 1040, line 71, and check box b on that line.

More information. For more information, including what documents to include for adoptions finalized outside of the United States, see the instructions for Form 8839.

Raising Grandchildren May Impact Your Federal Taxes

GRANDFAMILIES — Are you receiving all the tax benefits you deserve?

Selecting the correct filing status and tax credits will give you the lowest tax. Some credits are refundable and may create a refund even if you paid little or no federal income taxes. You may be eligible for some of these tax benefits if you are responsible for raising a grandchild or other qualifying child.

Brief summaries of these benefits are shown below:

Head of Household Filing Status – If you are considered unmarried and have a qualifying child, you may be eligible to use Head of Household as your filing status. This is generally more favorable than a Single filing status.

Exemption for the Child – If you are a grandparent or other relative who has a child living with you, specific rules may allow you to claim that child as a dependent. If you can claim a dependent, you may be eligible for other federal tax credits.

Earned Income Credit (EIC) – If you are working and have a qualifying child living with you, the EIC may be available to you even if you are 65 years of age or older. If you qualify, the EIC creates a refund even if you paid little or no federal income taxes.

Child Tax Credit (CTC) – If you are raising a grandchild or other qualifying child under age 17, you may be able to take the CTC and, under specific circumstances, the Additional CTC. The Additional CTC may give you a refund even if you do not owe any federal income taxes.

Credit for Child & Dependent Care Expenses – This credit may be available if you pay someone to care for a dependent under age 13 or for your spouse or a dependent who is physically or mentally not able to care for themselves while you work or look for work. This is a credit up to 35% of your unreimbursed, out-of-pocket expenses.

Qualified Education Expense – There are several federal tax credits or deductions available if you save for or pay education costs for yourself, your spouse, or a student that you claim as a dependent on your federal tax return. Education benefits include, but are not limited to the Education Credits (American Opportunity, Hope and Lifetime Learning Credits), Student Loan Interest Deduction, and Coverdell Education Savings Account.

Medical and Dental Expenses – If you itemize deductions, you may be able to include medical and dental expenses you pay for yourself, your spouse, or your dependent.

Foster Grandparent Program – This program is one of several National Service Corps programs. Income for supportive services or reimbursement for out-of-pocket expenses should not be included in your income for federal tax purposes.

Additional Information and Resources

For additional information on each of these federal tax topics visit our website at www.irs.gov, or call toll-free at 1-800-829-1040.

For a free paper copy of any the following publications and forms, please call 1-800-829-3676 (1-800-TAXFORM).

- Publication 501, Exemptions, Standard Deduction, and Filing Information
- Publication 502, Medical and Dental Expenses (including the Health Coverage Tax Credit)
- Publication 504, Child and Dependent Care Expenses
- Publication 596, Earned Income Credit (EIC)
- Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans
- Publication 970, Tax Benefits for Education
- Publication 972, Child Tax Credit
- Form W-5, Earned Income Credit Advance Payment Certificate
- Form W-10, Dependent Care Provider's Identification and Certification
- Form 2120, Multiple Support Declaration
- Form 2441, Child and Dependent Care Expenses
- Form 8812, Additional Child Tax Credit
- Form 8862, Information To Claim Earned Income Credit After Disallowance
- Form 8863, Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)
- Schedule A (Form 1040) Itemized Deductions
- Schedule EIC, Earned Income Credit (Qualifying Child Information)
- Schedule 2 (Form 1040A) Child and Dependent Care Expenses for Form 1040A Filers

Internal Revenue Service

Publication 4694 (Rev. 10-2010) Catalog Number 20263D Department of the Treasury **Internal Revenue Service** www.irs.gov