

Claiming the Federal Adoption Tax Credit for Special Needs Adoption

The health care reform bill made the U.S. federal adoption tax credit refundable for 2010 and 2011. New guidance from the IRS states that adoption tax credits carried forward from previous years will also be refundable, which means that families who adopted as far back as 2005 but who didn't have enough tax liability to use the credit in the past can take full advantage of the credit with their 2010 return.

Families who adopt a child with special needs from foster care can claim a federal adoption tax credit without needing to incur or document expenses. [For non-special needs adoptions (except step-parent adoptions, which do not qualify for the credit), parents can claim the credit with the same rules as below, except that they have to document qualified adoption expenses.] The per-child tax credit is \$13,170 for adoptions finalized in 2010, and the credit is now refundable for the first time. (If you finalized your adoption before 2010, please visit www.nacac.org to download a PDF of Adoption Tax Credit for Special Needs Adoptions Finalized from 2003 to 2009.)

Are We Eligible for the Credit?

To qualify for the credit without documenting expenses, families must:

- have adopted a child with special needs and
- have a modified adjusted gross income of a certain level.

How Do I Claim the Adoption Tax Credit?

To claim the credit you need to complete IRS Form 8839 in addition to filing your usual IRS Form 1040. You can find Form 8839 at <http://www.irs.gov/pub/irs-pdf/f8839.pdf> or by requesting it from 800-829-1040. (Right now, this links to the 2009 form. The IRS will post the 2010 form later this year.)

What If I Have Additional Questions?

If you receive adoption assistance for your child and have questions on whether it is taxable income or if you can claim that child as a dependent (and receive the Child Tax Credit), read NACAC's fact sheet, Tax Issues Related to Adoption Assistance and Adoption, which can be found at: www.nacac.org/adoptionsubsidy/factsheets/taxes.html

If you have additional questions on the adoption tax credit or adoption assistance, contact the North American Council on Adoptable Children at 651-644-3036 or adoption.assistance@nacac.org.

Source: NACAC (North American Council on Adoptable Children)