

Taxpayer Help and Education

Adoption Tax Credit

You may be able to take a tax credit of up to \$10,630 for qualifying expenses paid to adopt an eligible child. However, the adoption credit is not available for any reimbursed expense. The adoption credit is an amount subtracted from your tax liability. Although the credit generally is allowed for the year following the year in which the expenses are paid, a taxpayer who paid qualifying expenses in 2005 for an adoption, which became final in 2005, may be eligible to claim the credit on the 2005 return. In addition to the credit, up to \$10,000 paid or reimbursed through the year 2005 by your employer for qualifying adoption expenses may be excludable from your gross income.

For either the credit or the exclusion, qualifying expenses include reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including amounts spent for meals and lodging while away from home), and other expenses directly related to and for which the principle purpose is the legal adoption of an eligible child. An eligible child must be under 18 years old, or physically or mentally incapable of caring for himself or herself. The adoption credit or exclusion cannot be taken for a child who is not a United States citizen or resident unless the adoption becomes final.

The credit and exclusion for qualifying adoption expenses are each subject to a dollar limit and an income limit.

Under the dollar limit, the amount of your adoption credit or exclusion is limited to \$10,630 for each effort to adopt an eligible child. If you take both a credit and an exclusion, this dollar amount applies separately to each. The amount of your adoption credit or exclusion is limited to \$10,630 for each effort to adopt an eligible child. For 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. If you can take both a credit and an exclusion, the dollar limit applies separately to each.

For example, if you paid \$10,630 in qualified adoption expenses for a final adoption and your employer paid \$4,000 of additional qualified adoption expenses, you may be able to claim a credit of up to \$10,630 and also exclude up to \$4,000.

The \$10,630 amount is the maximum amount of qualifying expenses taken into account over all taxable years. Therefore, it must be reduced by the amount of qualifying expenses taken into account in previous years for the same adoption effort, including an unsuccessful effort to adopt a different child.

The income limit on the adoption credit is based on your modified adjusted gross income (modified AGI). If your modified AGI is less than \$75,000 or less, the income limit will not affect your credit or exclusion. If your modified AGI is more than \$75,000, your credit or exclusion will be reduced. If your modified AGI is \$115,000 or more, your credit or exclusion will be eliminated.

Generally, if you are married, you must file a joint return to take the adoption credit or exclusion. If your filing status is married filing separately, you can take the credit or exclusion only if you meet special requirements.

To take the credit or exclusion, complete Form 8839, Qualified Adoption Expenses. You will attach Form 8839 to Form 1040 or Form 1040A and report the credit on line 48 of the Form 1040 or line 31 of Form 1040A. Additional information on the adoption credit and exclusion can be found in Publication 968 *Tax Benefits for Adoption*. Employers should order Publication 968 to get information on setting up an adoption assistance program and information on how to report this benefit.