

# FRANZEN & FRANZEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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### March 14, 2015 – Adoption Credit and Income Exclusion

An adoption credit is available to taxpayers to help defray some of the costs involved in the adoption of children. The amount of the credit depends on the tax year, the taxpayer's qualified adoption expenses, and whether the adopted child has special needs. Qualified expenses include adoption fees, attorney fees, court costs and travel expenses while away from home. The maximum credit amount for 2014 is \$13,190; for 2015 the amount is increased to \$13,400. The credit is taken on the year the adoption is finalized but can include costs incurred in prior years. Expenses of an unsuccessful adoption can be combined with expenses of a later successful adoption. The credit is nonrefundable, meaning that the credit may not reduce your tax below zero. However, you may carry any unused credit amount forward for up to five years.

Taxpayers can also exclude from income the amount an employer pays toward adoption costs provided the employer has a written qualified adoption assistance plan. Depending on the cost of the adoption, you may be able to claim both the adoption credit and the income exclusion. However, you cannot claim both benefits for the same expenses.

There are special rules for the adoption of a child with special needs. You may be able to take the maximum tax credit even if you didn't pay any qualified adoption expense. A special needs child must meet two requirements: (1) the child is a U.S. citizen or resident; and (2) a state determines that the child cannot or should not be returned to the parents' home, and unless adoption assistance is provided to the adoptive parents, the child will probably not be adopted due to a specific factor or condition. *Example of factors/conditions:* Child's ethnic background, age, membership in a minority or sibling group, medical condition, or physical, mental or emotional handicap.

Please note the amounts for the adoption credit and the income exclusion may be limited based on the taxpayer's income. For 2014, both the credit and income exclusion are phased out for modified AGI exceeding \$197,880; no credit or exclusion is available if modified AGI exceeds \$237,880.

If you have questions or would like to discuss this topic further, please contact our office.