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Adoption Tax Benefits?

No one will suggest that the best reason to adopt a child is the tax benefits. Whether you end up with kids via adoption or via natural birth, the expenses can be staggering. Estimates for the dollars needed to raise a child to age 18 range up to [half a million dollars](#).



Tax Benefits? Still, if you're trying to adopt or have already done so and could use more tax benefits—and who can't?—you might be surprised to learn there are some, especially in 2010 and 2011. The IRS has just released a Q&A format guidance—Frequently Asked Questions—about [adoption tax benefits](#).

What are the biggies?

Employer Pay. Employers can pay or reimburse eligible employees for qualified adoption expenses related to adopting an eligible child. What's more, the employer can deduct it as an expense but you don't have to include the payment in your income.

It's exempt from your income for federal income tax withholding purposes as long as the benefits are provided as part of an adoption assistance program. However, note that the amount *is* included in your wages for [FICA](#) and [FUTA](#) tax purposes.

Adoption Credit. Employees can claim an adoption credit on their personal income tax returns if they adopted *or attempted to adopt* a child and paid qualified expenses relating to the adoption. You *can't claim both* the credit and an employer-provided exclusion on the same expense.

How Much? How big is the adoption tax credit? If you adopted—or even attempted to adopt—a child and paid “qualified expenses” your tax credit could be as much as \$13,170 for 2010 and \$13,360 for 2011. You may be able to claim the credit even if the adoption does not become final. If you adopt a special needs child, you may qualify even if you paid few or no adoption-related expenses.

Income Limits. If you make too much money, forget the credit. You may not get the full credit for 2010 if your modified adjusted gross income (MAGI) is \$182,520 or more. If your MAGI is \$222,520 or more, the credit is completely phased out. For 2011, the MAGI figures start at \$185,210, and the credit is completely phased out if you make \$225,210 or more.

Adoption FAQs. The IRS released FAQs on the following topics:

- What's the adoption credit?
- When and how do I claim it?
- Is the credit refundable (meaning even if I have zero income can I get a refund)?
- What's the income exclusion for employer-provided adoption benefits?
- When and how do I exclude employer-provided benefits from my income?
- What are “qualified adoption expenses”?
- Who is an eligible child?
- Are there differences between adopting a foreign child and a U.S. citizen or resident?

- What did Obamacare—the Patient Protection and Affordable Care Act—change about the adoption credit?
- What records should I keep to claim the adoption credit or the income exclusion?
- What audit documentation is necessary for special needs adoptions?

FAQ Reliance? The IRS is issuing more and more user-friendly advice. There are some questions among tax practitioners whether this is a good thing and how “FAQs” stack up against other IRS authority. See [How Heavy is an IRS FAQ?](#) But as a consumer, it seems safe to take the IRS at their word.

For more, see:

[North American Council on Adopted Children: Federal Adoption Tax Credit](#)

[Adoption Tax Credit](#)

[Kids Spawn \(Limited\) Tax Benefits](#)

[IRS Topic 607 – Adoption Credit](#)

[Ask the Adoption Law Expert: The Federal Adoption Tax Credit](#)

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