



Adoption Tax Credit Update January 4, 2013

We can all breathe a sigh of relief that Washington was able to avoid the fiscal cliff and resolve many of the most pressing tax issues, including the uncertainty of the Adoption Tax Credit by passing the American Taxpayer Relief Act of 2012 in the wee hours of New Years Day. While this legislation was a tremendous relief to families adopting in 2013 and beyond because it preempted the virtual disappearance of benefits for those families, we are disappointed that it did not make the adoption credit "refundable" as it was in previous years, 2010 and 2011.

The legislation permanently extended the Adoption Tax Credit under the existing rules for adoptions finalized in 2012. Specifically, this means:

- The adoption tax credit is permanently extended for adoptions finalized in 2012 and beyond.
- The maximum credit remains \$12,650 per child for adoptions finalized in 2012. (This figure will be increased due to inflation for adoptions finalized in 2013 and beyond. The IRS will release those figures at a future date.)
- Income, filing status, and other limitations still apply but will also be indexed for inflation.
- The adoption tax credit remains "flat" for "special needs adoptions", meaning that those who adopt children in the U.S. and receive adoption assistance/adoption subsidy benefits can claim the maximum credit regardless of their actual expenses. For other adoptions (except for step-parent adoptions), parents can claim the credit based on their qualified adoption expenses.
- The adoption tax credit can only be used to offset a "tax liability*", so only adoptive families with a federal income tax liability in the current year will see an immediate benefit.
- Any tax credit not used in the year of adoption can be carried forward for up to 5 years to offset a future tax liability.
- The credit is "non-refundable" under current laws, and any unused credit at the end of the 5 year carry forward period will expire.

We, along with many national advocacy groups are deeply disappointed Congress did not make the adoption tax credit refundable for 2012 or future years, and will continue to advocate for refundability in the future. You can help by contacting your Senator and Congressperson and ask them to support the Refundable Adoption Tax Credit bill when it is brought up for a vote. We also encourage you to sign the national adoption petition if you have not done so already at:

<http://www.change.org/petitions/help-make-adoption-affordable-keep-the-tax-credit-and-make-it-refundable>

Even though the credit isn't refundable for 2012, we also encourage those who adopted in 2012 to file a return and claim their credit with their 2012 taxes even if they do not have tax liability*. Although they will not receive a refund with their 2012 taxes, the credit can be carried forward up to five additional years. Families might benefit later if either their tax situation changes or the credit is made refundable in the future, and also would not have any additional expense or delay in amending their 2012 tax return. We also encourage families who qualify for the adoption tax credit to seek professional tax planning advice to maximize their benefits from this credit.

And remember that as foster/adoptive parents ourselves, we offer other foster/adoptive parents a 50% discount (\$100 max.) when they choose 1st Choice Tax Services to prepare their taxes.

*** "tax liability" is not the same as "owing" when you file your tax return. Call us to evaluate your specific circumstances.**

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