

# BREAKING NEWS

## The Adoption Credit has major changes for adoptions finalized on or after January 1, 2025!

New legislation signed into law by the president on July 4, 2025 enhances the adoption credit to benefit all adoptive parents.

For adoptions finalized on or after January 1, 2025 the first \$5,000 of the adoption credit shown in the table to the right is now fully refundable for any family meeting the requirements shown inside this brochure. Any excess credit above \$5,000 remains non-refundable but available to carry forward under existing rules.

This specifically benefits low income families who did not have enough income to use the Adoption Credit under prior rules. Even if they otherwise have no tax liability or need to file a tax return, **if they finalize a qualified adoption in 2025, they can now claim a tax refund of \$5,000 per child adopted; or if they finalize a qualified adoption in 2026, they can now claim a tax refund of \$5,120 per child adopted.** But they must file a tax return to claim the refund.

**For any family without earned income (from a job or self-employment) and no taxable income, 1st choice will file their tax return to claim the \$5,000 per child refund for a discounted fee of \$250.**

Visit our website, [www.1stChoiceTaxServices.com](http://www.1stChoiceTaxServices.com) for more information

### Maximum Credit by Year

The table below shows the maximum Adoption Credit that can be claimed by year. The maximum is per child adopted, not an annual limit per taxpayer. This means if you adopt 2 children you can claim up to 2 times the amount shown below. The limit is also increased annually for inflation for future years.

2020	\$14,300
2021	\$14,440
2022	\$14,890
2023	\$15,950
2024	\$16,810
2025	\$17,280
2026	\$17,670



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## The 2025 - 2026 Adoption Tax Credit

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## The Adoption Tax Credit

There have been significant changes to the Adoption Tax Credit in recent years. How this credit can benefit your family depends upon the year of adoption and the type of adoption.

### Year of Adoption

The tax rules that govern how the credit is claimed, and the amount of the credit are determined by the year the adoption became final. See the chart on the back page for the maximum credit allowable by year.

### For Adoptions finalized in 2011 and earlier

For adoptions finalized in 2010 and 2011, the adoption credit was fully refundable. For most taxpayers the ability to claim a refund for an adoption finalized in 2011 and earlier has expired.

### For Adoptions finalized in 2012 thru 2024

For adoptions finalized in 2012 thru 2024, the Adoption Credit was "non-refundable"; meaning it can only reduce your tax liability to zero, but thereby, can indirectly increase your tax refund. Any unused credit will be carried over for up to 5 additional years to offset a future tax liability.

Any unused credit expires at the end of the 6th year. There are many tax planning opportunities available to accelerate the use of a remaining credit to avoid it expiring.

### For Adoptions finalized in 2025 and 2026

For adoptions finalized from January 1, 2025 through December 31, 2025, the Adoption Credit is partially refundable up to \$5,000 per child. For adoptions finalized from January 1, 2026 through December 31, 2026, the Adoption Credit is partially refundable up to \$5,120 per child. Any excess credit above \$5,000 in 2025 (or \$5,120 in 2026) remains non-refundable but available to carry forward for 5 additional years under existing rules.

**Having a tax liability to use the credit against does not mean "owing" the IRS money when you file your taxes. 1st Choice is happy to evaluate your specific situation and provide important tax planning advice on how to maximize your benefit of this credit.**

## Types of Adoptions

The IRS has many requirements for claiming the Adoption Tax Credit. Some rules apply to all types of adoptions. Other rules vary depending upon the type of adoption. And as discussed earlier, the rules vary by year. This brochure summarizes those requirements based upon current tax law. These rules have changed frequently in the past and may change again in the future. For updated information, you may visit our website:

[www.1stChoiceTaxServices.com](http://www.1stChoiceTaxServices.com)

### Requirements for ALL Adoptions

- Your filing status is Single, Married Filing Jointly, Head of Household, or Qualifying Widow(er). You may not claim the credit on a Married Filing Separate return.
- Household income (MAGI) is less than \$265,080\* for 2026 or you have a carry forward of an adoption credit from a prior year. Phase out begins with MAGI of \$305,080\*

*\* Indexed annually for inflation*

- Provide the following information to identify the child: SSN, ITIN, or ATIN, Full Name, and date of birth.
- The child can not be your step-child.

### Domestic Adoptions

A Domestic Adoption is an adoption where the adoptive parents and child are US citizens or residents. It may be facilitated privately, by an attorney, adoption agency, or state-operated foster care system, but does not meet the requirements of a "Special Needs Adoption" as defined later.

The Adoption credit for domestic adoptions allows taxpayers to claim a credit for the "ordinary and necessary" expenses they paid in the adoption process, which includes the following qualified adoption expenses:

- Adoption Fees paid to an Adoption agency
- Attorney fees and Court costs
- Home study, fingerprints, birth certificates, etc.
- Travel expenses while away from home

The amount of the credit to claim is the total of all qualified adoption expenses paid, but can not exceed the maximum shown in the chart on the back page. The credit is claimed in the year following the year the expenses were paid, or in the year the adoption was finalized, which ever occurs first.

## Special Needs Adoptions

A Special Needs Adoption has nothing to do with any physical or mental disabilities of the child. Rather, it is a finalized adoption, usually through a state-operated foster care system, where the state has determined the child has a "special need to be adopted" and that the child will not be adopted unless assistance is provided to the adoptive parents in the form of a subsidy. Factors used by the states to make this determination include:

- The child's ethnic background and age
- Whether the child is a member of a minority or sibling group.
- Whether the child has a medical condition or physical, mental or emotional handicap

The assistance can be either a one-time subsidy covering the expenses of the adoption or an on-going monthly subsidy. In Arizona, a Title IV-E Adoption Subsidy or Assistance Agreement issued by DCS satisfies the state determination of special needs requirement.

In the case of a special needs adoption, the Adoption Credit claimed is the maximum credit allowable for the year the adoption was finalized, regardless of whether or not the taxpayer has paid any adoption expenses. In addition, any employer provided adoption benefits do not reduce the maximum credit.

Many states, including Arizona, offer some type of adoption benefits on their state income tax return. Contact a knowledgeable tax advisor for more information.

### Foreign Adoptions

A Foreign Adoption is the adoption of a child from a foreign country. Foreign adoptions have unique and additional requirements. Contact a knowledgeable tax advisor for more information if you have adopted a foreign child.

**1<sup>st</sup> Choice Tax Services Inc. is pleased to offer foster and adoptive families a \$100.00 discount on each year of tax preparation.**

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