

## Adoption Credit

Taxpayers who adopt a child can qualify for the adoption tax credit when they pay out-of-pocket expenses related to the adoption. These expenses include adoption fees, court and attorney fees, and travel expenses. The amount of the tax credit is directly related to how much you spend.

### How Much Is the Adoption Tax Credit?

The adoption tax credit is indexed for inflation, so it increases a little from year to year. The credit amount is for each eligible child:

- 2021: \$14,440<sup>1</sup>
- 2020: \$14,300<sup>2</sup>

You would not be eligible for the full \$14,440 credit in 2021 if you had only \$10,000 in qualifying expenses because your credit is limited to the amount of you spend. Likewise, you would be limited to a credit of \$14,440 even if you spent \$20,000 on qualified expenses, with one exception. You are entitled to claim the full amount of the credit if you adopt a special needs child even if your out-of-pocket expenses are less than the tax credit amount.

This credit is nonrefundable. It can erase any tax liability you owe the IRS, but you will not receive the balance as a refund if the credit is more than what you owe. You would still receive a credit for \$10,000 if you owe \$10,000 even if you qualify for the full \$14,440. Any excess credit can be carried forward for up to five years, so the remaining \$4,400 could still be claimed in later years.

### Income (MAGI) Phaseout Ranges

- 2021: \$216,600 to \$256,660
- 2020: \$214,520 to \$254,520

You can't claim the adoption credit if your MAGI exceeds the top number. Your credit begins reducing at the first threshold, and the more you earn, the less of a portion you can claim. You can only claim a portion of the credit if your MAGI falls between \$216,600 and \$256,660 in 2021.

### Other Eligibility Requirements

You must adopt an eligible child and pay qualified adoption expenses out of your own pocket to claim this credit. Eligible children include those who are age 17 or younger, or a child of any age who is a U.S. citizen or a resident alien and is physically or mentally incapable of caring for themselves.

Qualified adoption expenses are calculated by adding up all the expenses related to the adoption, then subtracting any amounts reimbursed or paid for by your employer, a government agency, or another organization. Expenses for a failed adoption might qualify for the credit if a successful adoption follows it, but the two adoption efforts would be considered as one adoption and subject to the dollar limit per eligible child.

### Special Needs Children

Special needs children are those who receive adoption assistance or adoption subsidy benefits, typically because they are in foster care. Benefits can include Medicaid or reimbursement of certain expenses, and they are received because the state believes that the child would not be adoptable if they were not provided. The state must also determine that the child cannot be returned to their parents.

The child might or might not have a physical, emotional, or mental handicap as well, but a disability alone will not qualify a child as special needs for purposes of the adoption tax credit. Nor does being in foster care automatically qualify a child as special needs.

### **When to Claim the Adoption Credit**

You can claim the adoption credit in the tax year after your expenses were paid if they were paid before the adoption was final, and you can claim it in the same year for expenses that were paid that year if the adoption was final that year. You would take the adoption credit in the year the expenses were paid if this occurred in the year after the adoption is final.

Different rules apply if the child is a foreign national, however. You can take the adoption credit only in the year the adoption becomes final in this case, or you can take the credit for expenses in the year that you paid them if they were paid in the year after the adoption was finalized.

You must apply for an Adoption Taxpayer Identification Number (ATIN) to begin claiming your adopted child as a dependent if the child doesn't yet have a Social Security number. The IRS provides [comprehensive information about the ATIN](#) on its website.