



## Topic 607 - Adoption Credit

You may be able to take a tax credit for qualifying expenses paid to adopt an eligible child (including a child with special needs). The adoption credit is an amount subtracted from your tax liability. Although the credit generally is allowed for the year following the year in which the expenses are paid, a taxpayer who paid qualifying expenses in the current year for an adoption which became final in the current year, may be eligible to claim the credit on the current year return. The adoption credit is not available for any reimbursed expense. In addition to the credit, certain amounts reimbursed by your employer for qualifying adoption expenses may be excludable from your gross income.

For both the credit or the exclusion, qualifying expenses include reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including amounts spent for meals and lodging while away from home), and other expenses directly related to and for which the principal purpose is the legal adoption of an eligible child. An eligible child must be under 18 years old, or be physically or mentally incapable of caring for himself or herself. The adoption credit or exclusion cannot be taken for a child who is not a United States citizen or resident unless the adoption becomes final. An eligible child is also a child with special needs if he or she is a United States citizen or resident and a state determines that the child cannot or should not be returned to his or her parent's home and probably will not be adopted unless assistance is provided. Under certain circumstances, the amount of your qualified adoption expenses may be increased if you adopted an eligible child with special needs.

The credit and exclusion for qualifying adoption expenses are each subject to a dollar limit and an income limit.

Under the dollar limit the amount of your adoption credit or exclusion is limited to the dollar limit for that year for each effort to adopt an eligible child. If you can take both a credit and an exclusion, this dollar amount applies separately to each. For example, if we assume the dollar limit for the year is \$10,000 and you paid \$9,000 in qualifying adoption expenses for a final adoption, while your employer paid \$4,000 of additional qualifying adoption expenses, you may be able to claim a credit of up to \$9,000 and also exclude up to \$4,000.

The dollar limit for a particular year must be reduced by the amount of qualifying expenses taken into account in previous years for the same adoption effort.

The income limit on the adoption credit or exclusion is based on your modified adjusted gross income (MAGI). If your modified MAGI is below the beginning phase out amount for the year, the income limit will not affect your credit or exclusion. If your MAGI is more than the beginning phase out amount for the year, your credit or exclusion will be reduced. If your AGI is above the maximum phase out amount for the year, your credit or exclusion will be eliminated.

Generally, if you are married, you must file a joint return to take the adoption credit or exclusion. If your filing status is married filing separately, you can take the credit or exclusion only if you meet special requirements.

For 2008, the maximum adoption credit has increased to \$11,650. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to \$11,650. These amounts are phased out if your MAGI is between \$174,730 and \$214,730. You cannot claim the credit or exclusion if your MAGI is \$214,730 or more.

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