

JANUARY 15, 2013

FREQUENTLY ASKED QUESTIONS ABOUT THE ADOPTION TAX CREDIT

NACAC (North American Council on Adoptable Children) and the other members of the Adoption Tax Credit Working Group have prepared answers to the most frequently asked questions about the adoption tax credit, as it was changed by the American Taxpayer Relief Act, passed on January 2, 2013.

What is the adoption tax credit? The adoption tax credit, which can be claimed for eligible adoption-related expenses, has helped thousands of American families offset the high cost of adoption since the credit was established in 1997. The credit applies to all types of adoption (except stepparent adoption), including international, domestic private, and public foster care. Since 2003, families who adopted children with special needs could claim the maximum credit regardless of their qualified adoption expenses. The credit has made adoption a more viable option for many parents who might not otherwise have been able to afford adoption, allowing them to provide children with loving, permanent families.

What does it mean that the adoption tax credit is permanent? A permanent tax credit is one that was extended without a specific expiration or sunset date. Congress can still choose to make changes to the credit in future legislation.

What is the maximum amount of the credit for 2013? At what income level does the credit begin to phase out? For 2013, the maximum adoption credit and exclusion is \$12,970. The credit will begin to phase out for families with modified adjusted gross incomes above \$194,580 and the credit will go away completely for those with incomes near \$234,580.

Is the tax credit for all adoptions or just special needs? Can I receive the credit if I adopted a healthy child? What kinds of adoptions benefit from the tax credit? The adoption credit is for all adoptions other than stepparent adoptions (international, domestic private, and public foster care). See below for more information about how special needs adoptions are different.

What are qualified adoption expenses? The IRS writes: "Qualified adoption expenses are reasonable and necessary expenses directly related to, and for the principal purpose of, the legal adoption of an eligible child."

Qualified adoption expenses include:

- Adoption fees,
- Attorney fees,
- Court costs,
- Travel expenses (including meals and lodging) while away from home, and
- Re-adoption expenses relating to the adoption of a foreign child.

How much of the credit can a parent claim?

Parents who adopted a child who has been determined to be special needs by the state or county child welfare agency (see next question for special needs definition) can claim the maximum credit regardless of whether they have qualified adoption expenses at all.

For other adoptions (other than stepparent adoptions, which are not eligible for the credit at all), parents can claim the credit for qualified adoption expenses up to the maximum. So if a family has \$5,000 in expenses for a private, non-special needs adoption, they can claim only that \$5,000 not the maximum. Families who have expenses above the maximum can only claim the maximum. So if a family has expenses of \$30,000 for a 2013 adoption of one child, they will be able to claim only \$12,970 (as long as their income is below the phase-out limits listed above). In all cases, how much a parent will actually receive in a given year depends on their tax liability (see below).

If my child doesn't receive a monthly adoption assistance benefit is my child considered special needs? You do not need to receive a monthly payment to qualify as special needs as long as you receive either reimbursement of non-recurring adoption expenses or Medicaid through the adoption assistance program. You must receive benefits through the adoption assistance program.

What does it mean that the credit is not refundable? A non-refundable credit is one in which taxpayers receive a refund of federal income taxes, but only up to the amount of taxes they otherwise had due. In one year, taxpayers can use as much of the adoption tax credit as the full amount of their federal income tax liability, which is the amount on line 46 of the Form 1040 less certain other credits (such as the Child Tax Credit). Even those who normally get a refund may still have tax liability; with the adoption tax credit the taxpayer could get a larger refund.

Families who have lower or moderate incomes typically have no tax liability and will not benefit from a non-refundable credit. We still encourage families who don't think they have a tax liability to file for the credit (Form 8839), in case families' tax liabilities change in future years (see more below under "carry forward").

Here's a very simplified example: A family has \$5,000 in federal income taxes withheld from their paychecks during the year. When they do their taxes, they look at the tax tables and based on their adjusted gross income, their federal income taxes are \$1,000 (this is their tax liability). If there were no adoption credit, they would be due a refund of \$4,000. The family had qualified adoption expenses of \$8,000. Because of the adoption credit, they would receive an additional \$1,000 refund for that tax year (reducing their tax liability to zero), meaning that they get the full \$5,000 that was withheld back rather than just the \$4,000 they would have gotten without the non-refundable credit.

They can carry the remaining \$7,000 (\$8,000 in expenses minus the \$1,000 they received) forward to future years and receive additional refunds depending on their tax liability in future years. (See more on the carry forward below.)

When can I claim the credit? For special needs or international adoptions, you cannot claim the adoption credit until you file taxes for the year of finalization. So, if you received placement of a child in 2012 but the adoption was not finalized until 2013, you cannot claim the credit until you file your 2013 taxes in early 2014.

For U.S. private adoptions with qualified adoption expenses, you can claim the credit before finalization (or for a failed adoption) but you must wait one year after you incur the expenses. So, if you had expenses for an adoption in 2011 that has not or will not finalize, you must claim them with your 2012 taxes filed in early 2013.

What do I need to give my tax person?

Parents need to refer to IRS Form 8839 and the accompanying instructions. Visit: <http://www.irs.gov/pub/irs-pdf/f8839.pdf>. Please note that the instructions for Form 8839 for tax year 2012 have not been released yet. We expect the IRS will release them by the end of January.

Find more FAQs @ <http://adoptiontaxcredit.org/faqs/>



IFAPA Legislative Breakfast

Tuesday, February 19, 2013

7am-9am - Legislative Dining Room
State Capitol Building - Des Moines

Iowa's foster, adoptive and kinship families are improving the child welfare and child protective system by advocating for positive change. In these tough financial times it is imperative that families keep their legislators informed on the issues facing children in their care. Sharing specific information about your family situation can inform legislators of the importance of funding foster care and adoption programs.

Read IFAPA's 2013 Legislative Priorities

http://www.ifapa.org/pdf_docs/LegislativePriorities2013.pdf

Find Your Legislators

To find out who your legislators are and their mailing address, phone number and e-mail address visit the following link:

<http://www.congress.org/congressorg/officials/congress/>

Legislative Tips

To learn more about how the Legislative Breakfast works and how to effectively communicate with your legislators, visit:

<http://www.ifapa.org/resources/documents/LegislativeTipsIFAPA.pdf>

RSVP for Event

If attending, please RSVP to IFAPA at 800-277-8145 ext. 4.

IFAPA SPRING CONFERENCE

IFAPA is hosting our annual Spring Conference on Friday, March 1 and Saturday, March 2 at the Adventureland Inn in Altoona. All of our conference trainings are approved for foster parent credit and many are also approved for social worker CEUs. Our conference offers many great training opportunities you cannot find anywhere else!! **Registration deadline is Mon., Feb. 11th.**

Register via mail:

http://www.ifapa.org/pdf_docs/2013ConferenceBookletwebsite.pdf

Register and pay online:

<https://ifapa.ejoinme.org/?tabid=433905>

UPCOMING TRAININGS

Communicating with Your Child Through Play

For our children who can't verbalize what they are feeling or have experienced, toys become their words and play becomes their form of expression. This training provides an overview of the rationale for play therapy with children and how trauma affects a child's play, provides information on how to gauge what play is appropriate and when to seek help, and how to use your child's natural language of play to help build connections to you and to others. This training covers communicating through play with all age ranges, including ideas for how to connect with your teen. It will also provide information on how to best communicate what you are seeing with your child's therapist. (Trainer: Rebecca Dickinson, LISW, MSW) – 3 Hours Credit

WATERLOO—Sat., Jan. 26 (1:30pm-4:45pm)

ANKENY—Sat., Feb. 9 (9am-12:15pm)

DAVENPORT—Sat., Mar. 23 (1:30pm-4:45pm)

"Don't Worry About It!!!" Anxiety, Panic & OCD

We all worry and at times feel anxious. Sometimes worrying can turn in to real symptoms of anxiety and panic; and in more extreme cases, anxiety and panic can manifest itself into obsessive thoughts and compulsive behaviors. Have you ever wondered exactly why it is that we worry and experience symptoms of anxiety and panic? The purpose of this workshop is to help participants gain greater insight and understanding behind the biology of why anxiety exists and teach the skills needed for children and adolescents, as well as adults, to be able to manage anxiety, panic, and obsessive thoughts and compulsive behaviors more effectively. (Trainer: Matt Hiveley, PhD) – 6 Hours Credit

SIOUX CITY—Sat., Jan. 26 (9am-4:30pm)

CEDAR FALLS—Sat., Feb. 9 (9am-4:30pm)

DAVENPORT—Sat., May 4 (9am-4:30pm)

REGISTER FOR A CLASS

800-277-8145 ext. 1

www.ifapa.org/training/training_registration_form.asp

ADDITIONAL CPR COURSE ADDED

IFAPA's CPR & First Aid class scheduled the afternoon of Saturday, February 2 in Ankeny is completely full - there are no spots left in the class. Due to the demand we have received for this class, IFAPA will be offering an additional CPR and First Aid class in Ankeny on Saturday, Feb. 2 from 8am – 12:15pm. To register, complete the following form and mail in with your payment: www.ifapa.org/pdf_docs/CPRegFormSpring2013.pdf. To register and pay by credit card, e-mail Steph at smiles@ifapa.org.