

2018 Adoption Credit

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If you finalized a special needs adoption in 2018, you may be able to claim a non-refundable credit of up to \$13,810 per child.

The tax credit is paid one time for each adopted child and should be claimed when taxpayers file taxes for 2018.

I adopted in 2018; how do I know if it was a special needs adoption?

If the adoption you finalized is a subsidized adoption, it is a special needs adoption. As part of the adoption process, you would have signed and received a copy of a document called an "Agreement to Subsidy." This document provides the reasons why and confirms that New Jersey/CP&P designated the adoption as a special needs adoption.

What is a tax credit?

A tax credit is an amount of money that the (IRS) allows taxpayers to use, for specific reasons, to reduce the amount of income

tax they may have to pay to the IRS.

What is the adoption tax credit?

The adoption tax credit is a non-refundable tax credit available to eligible taxpayers who finalized a special needs adoption (as designated by CP&P) in 2018. For eligible individuals, the credit can offset their income tax liability up to \$13,810.

What does non-refundable mean?

Non-refundable means that the credit can be used to offset a portion or all of your tax liability, but the credit itself or any amount in excess of the taxes owed cannot be refunded/paid directly to you. However, the excess amount may be eligible to be carried forward for use in the next tax year.

Example 1: Family A finalized a special needs adoption in 2018 and were eligible to claim the adoption tax credit. Based on their income, they owed the IRS \$13,850 in income taxes. They claimed the credit of \$13,810 and reduced their tax liability from \$13,850 to \$40. The \$13,850 tax liability minus the \$13,810 adoption tax credit = \$40 taxes owed. The full amount of the credit was used, and it reduced their taxes owed to \$40.

Example 2: A couple adopted two brothers who had been determined to have special needs. The parents had \$6,500 in federal income tax withheld from their paychecks, and their tax liability

is \$7,000, which means they would normally owe \$500 to the IRS. Their adoption tax credit is \$27,620, and they can use \$7,000 (their tax liability) of that with their 2018 taxes. They get a refund of the \$6,500 they had already paid and can carry over \$21,120 for up to five more years.

Example 3: A couple adopted three siblings with special needs. They had \$1,000 in federal income tax withheld from their paychecks, and their tax liability is \$0, which means they would receive a refund of \$1,000. They have \$40,430 in the adoption tax credit, but they cannot use it with their 2018 taxes since they have no federal income tax liability. They should still file Form 8839 with their 2018 tax return so that they can establish the credit and carry it forward for up to five additional years in case their tax liability goes up in the future or the credit becomes refundable.

How do I claim the adoption tax credit?

To claim the adoption tax credit, you must complete and file a Form 1040 US Individual Income Tax Return and a Form 8839 Qualified Adoption Expenses. You can access Form 8839 here: <http://www.irs.gov/pub/irs-pdf/f8839.pdf>.

Instructions for Form 8839 are available here: <http://www.irs.gov/pub/irs-pdf/i8839.pdf>.

Note: Claiming the credit for 2018 does

not require any additional documentation to be filed with the tax forms, but you should keep the Adoption Decree issued by the court and the Agreement to Subsidy provided by CP&P for your records and future reference if needed.

One of the form names mentions Qualified Adoption Expenses; what are they?

Qualified Adoption Expenses are expenses that the IRS considers to be reasonable, necessary and directly related to the purpose of adopting an eligible child. They include adoption fees, attorneys fees, court costs and travel expenses.

I didn't have any qualified expenses; am I still eligible to claim the credit?

Yes, you are eligible as long as the adoption you finalized was a special needs adoption. When adopting through CP&P, there are no adoption expenses incurred by the adoptive parent. The special needs designation eliminates the need to show payment of qualified expenses to be eligible to claim the credit.

I finalized more than one special needs adoption; can I file a claim for all of them?

Yes. A credit can be claimed for each child you adopted. Form 8839 allows for up to three adoption tax credit claims; if you finalized more than three special needs adoptions, you will need to complete and attach additional forms.

Note: The information provided here does not cover every aspect of the adoption tax credit. It only focuses on the aspects that are relevant to adoptions of children considered to be special needs, through the New Jersey Division of Child Protection and Permanency (CP&P).