

Federal Adoption Tax Credit

Congress established a federal tax credit for adopting a child. The adoption tax credit is a nonrefundable tax credit for qualified adoption expenses paid or incurred to adopt an eligible child.

What Expenses Qualify for The Tax Credit?

Qualified adoption expenses are reasonable and necessary expenses, such as agency fees, court costs, attorney's fees, and other expenses directly related to the taxpayer's legal adoption of an eligible child. This also includes traveling expenses, such as meals and lodging, while away from home.

Who Is an Eligible Child?

An eligible child is a child that has not reached 18 years old as of the time of adoption and is physically incapable of caring for himself. Foreign children can be adopted and are applicable for this tax credit.

What Year Can I Claim This Tax Credit?

For a domestic adoption, if the taxpayer has qualified adoption expenses in any year before the adoption becomes final, the tax credit is claimed in the year after the year of payment. For example, if \$10,000 is spent on legal fees in 2020, but the adoption is not final at the end of the year, these would count for the tax credit in 2021. Once the adoption is final, all qualified adoption expenses paid are eligible for the credit in the year of payment.

For domestic adoptions, you can claim this tax credit even if the adoption is never completed. For foreign adoptions, however, you must complete the adoption to claim the tax credit. No expenses can be used for a foreign adoption until it is completed, regardless of timing.

How Is the Tax Credit Calculated?

The adoption credit is subject to a limit of \$14,300 in 2020. This is a per child limit, not per year limit. If more than one adoption is completed, then the limit is for each child and is not a total limit. The adoption credit is capped at certain income levels. For 2020, the tax credit begins to phase out at an adjusted gross income of \$214,520, and completely phases out at \$254,520 for married couples filing joint tax returns.

Are There Any Georgia Adoption Tax Credits?

The Georgia Legislature created a tax credit for an adoption of a qualified foster child. A qualified foster child means a foster child who is less than 18 years old and who is in the foster care system under the Division of Family and Children Services of the Department of Human Services in Georgia.

The taxpayer can claim a \$2,000 tax credit per qualifying child per tax year commencing in the year the adoption is final and ending in the year the adopted child reaches 18 years old. This tax credit is nonrefundable.

Who We Are



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RESJ, CPAS has been serving clients in the Atlanta area for 40 years. Our mission statement is that RESJ exists to glorify God by serving as essential trusted advisors to help clients reach their financial goals. Please contact us if you require assistance regarding how to claim these tax credits. For more information, please contact Bruce or Jared, associates of RESJ.



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