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2019 ADOPTION TAX CREDIT

For tax year 2019, adoptive families with modified adjusted gross income of up to \$211,160 should be eligible to receive the full \$14,080 adoption tax credit. The tax credit completely phases out for families with modified adjusted gross incomes of \$251,160 or more. A tax credit is a dollar for dollar tax reduction in your overall tax liability. A tax deduction lowers your income, which in turn lowers your taxes according to your tax bracket.

IMPORTANT NOTE: The IRS states that the credit is based on the reasonable and necessary expenses related to a legal adoption, including adoption fees, court costs, attorney's fees and travel expenses. Income limits and other special rules apply. Adoptive parents of Children with Special Needs (as determined by the state) may qualify for the full tax credit, regardless of whether they have incurred any actual expenses.

Limitations

For tax year 2019, the credit starts to phase out for families earning over \$211,160 and completely phases out at \$251,160. You have up to five years to use the full tax credit, so if you cannot take advantage of the full credit in the first year, you may carry the remainder forward in the following year(s).

Qualifying Expenses & Non-Eligible Expenses

Qualifying expenses are those that are "reasonable and necessary" for the adoption which include: agency fees, home study fees, court fees, attorney fees, traveling expenses while away from home, and other expenses that are directly related to the adoption. Non-eligible expenses include: costs of adopting a spouse's child; expenses taken as a credit or deduction elsewhere on a tax return, expenses paid for through an employer program, and expenses paid for by federal, state, or local funds.

Employer Adoption Assistance Exclusion

For tax year 2019, up to \$14,080 adoption assistance provided by an employer may be excluded from an employee's taxable income. You may be able to claim both the credit and the exclusion for expenses, but you may not claim both for the same expenses.

CAUTION: This information is a guideline only and is not a substitute for professional tax advice. Tax laws change every year, so be sure to consult with a tax advisor who understands the Adoption Tax Credit before completing your taxes.