



# ADOPTION & FINANCES

## FEDERAL TAX CREDIT

The federal tax credit provides an excellent way to help fund your adoption. However, it can be complicated to determine how much you can receive and when. Because of this, Loving Shepherd recommends that, if eligible, you consult with a tax professional. This guide is only meant to help you determine if you are eligible. It should not replace the advice of a tax consultant or financial advisor.

On January 2, 2013 a bill was passed by Congress which makes the adoption tax credit permanent and not refundable.

### WHAT IS THE ADOPTION TAX CREDIT?

This can be claimed for eligible adoption related expenses. The credit applies to international, domestic private and public foster care adoptions. The credit does not apply to stepparent adoptions.

### WHAT IS THE CURRENT STATUS OF THE ADOPTION TAX CREDIT?

The new adoption tax credit is permanent. The new changes did not make the adoption tax refundable. Therefore, it will only help families who have federal income tax liability.

Families who adopt a special needs child do not need to document qualified adoption expenses.

### WHAT DOES "PERMANENT" ADOPTION TAX CREDIT MEAN?

This tax credit was extended without a specific expiration date. However, Congress can still make changes to the credit in the future.

### WHAT IS THE MAXIMUM AMOUNT OF CREDIT IN 2013?

The maximum adoption credit is \$12,970.

### WHAT INCOME LEVEL DOES THE CREDIT BEGIN TO PHASE OUT?

The credit will begin to phase out for families with an adjusted gross income above \$194,580. The credit will go away completely for families with income around \$234,580.

### WHAT ARE QUALIFIED ADOPTION EXPENSES?

This can include adoption fees, attorney fees, court costs, travel expenses (including meals and lodging), re-adoption expenses related to international adoption and other direct expenses related to the legal adoption.

### HOW MUCH OF THE CREDIT CAN A PARENT CLAIM?

Parents who have adopted a special needs child by the state or county child welfare agency can claim the maximum credit regardless if the family has qualified adoption expenses.

For other adoptions, parents can claim the credit for qualified adoption expenses up to the maximum. For example if a family has \$7,000 in qualified expenses, they can only claim \$7,000 (not the maximum). Families above the maximum can only claim the maximum amount.



### WHAT IS SPECIAL NEEDS ADOPTION?

This is determined by the state or county child welfare agency on how likely a child will be adopted unless assistance is provided to the adoption family. Special needs are almost exclusively foster care children. The children are typically older, part of sibling group or have physical, emotional or mental disabilities. To qualify for the adoption tax credit, the child needs to have an adoption assistance agreement in place.

No child adopted internationally is considered special needs for the adoption tax credit.

### IS THE CREDIT REFUNDABLE FOR 2012 OR FUTURE YEARS?

No, the credit was only refundable in 2010 and 2011.

### WHAT DOES "NONREFUNDABLE" MEAN?

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 on Form 1040.

### IS THE CREDIT A DEDUCTION?

No, it is a reduction in the amount of federal taxes owed for the year.

### WHAT IS TAX LIABILITY?

It is the amount of federal income tax that you owe. This is determined according to your taxable income.

### CAN THE CREDIT BE CARRIED FORWARD AFTER THE FIRST YEAR I CLAIM IT?

This is unclear at this time until later in 2013. It appears taxpayers have at least six years to use the credit. However, it may be carried forward with no time limitations.

It is encouraged to include Form 8839 to establish the adoption tax credit even if you do not believe you will receive a refund. Families may have tax liability in future years and establishing the credit will save from amending your taxes.

### WHEN CAN I CLAIM THE CREDIT?

For special needs or international adoptions, you can not claim the adoption credit until you file taxes for the year of finalization. For example, if you received a placement of a child in 2012 and finalized the adoption in 2013, you can not claim the credit until you file your 2013 taxes in early 2014.

For domestic private adoption with qualified adoption expenses, you can claim the credit before finalization but you must wait one year after you incur the expenses.

### WHAT DO I NEED TO GIVE TO MY TAX PERSON?

Adoptive parents need to refer to IRS Form 8839.

Again, this is not meant to take the place of professional advice. To learn more about specific amounts (which can vary by year to year) and when certain expenses apply, consult with a tax consultant.



## SOURCES OF FUNDING FOR THE ADOPTION PROCESS

### FOSTER CARE

Through federal subsidies and Medicaid, states offer funding for people wanting to adopt special-needs children through foster care. These funds cover medical bills, therapy bills and other expenses, though a child must be found eligible. Eligibility standards vary by state.

If a child is not eligible for federal funding, states might offer local assistance, though this can vary because of budgetary limitations. States also offer reimbursement for certain non-recurring expenses. The amount allowed for these non-recurring expenses varies by state. To learn more about your state's financial assistance, contact your county's foster care office. If you are seeking to adopt from a private foster care agency, contact that particular agency for more information.

### BORROWING OPTIONS

The vast majority of families who adopt, borrow the money. With the tax credit as a form of future funds available, borrowing can be a good option. There are many sources from which the money can be borrowed including:

#### FAMILY AND FRIENDS

Typically family and friends will give the most favorable terms but borrowing money from people you know can lead to some future problems. Always be cautious as to the consequences to relationships if there is a misunderstanding or a problem.

#### BANK OR CREDIT UNION

Banks and credit unions have many different loan programs. Talking with a loan officer will help you determine which would be your best option. Typically a home equity loan would give the best interest rate and very flexible repayment terms. However borrowing against a vehicle, refinancing your mortgage, or an unsecured loan could be viable options as well.

#### SPECIALIZED ADOPTION LOAN PROGRAMS

There are banks and foundations that have adoption loan programs designed specifically for adoption. Rates and terms are sometimes very favorable depending on which program is being considered. Loving Shepherd Ministries has a list of program options.

### NON-BORROWING OPTIONS

There are many options available to couples who either prefer not to or do not need to borrow the money in order to adopt. These include:

#### PERSONAL SAVINGS

The very best way to fund an adoption is from money that has already been saved ahead of time. Many times if people know ahead of time what the approximate costs will be, they can save at least part of the total expense and thus reduce the amount that needs to be borrowed.



## FUNDRAISING

Another option used by many people is fundraising. There are many businesses that will allow people to set up shop in front of their business and sell baked goods, lunches, and other items. This can be a time-consuming process, but if you are close to having the amount needed, this may be just the thing to put you over the top. Family, friends, and churches often will help with fundraising or even give a monetary gift. Some people feel awkward asking but sometimes it is the only way to make an adoption a reality.

## EMPLOYER ASSISTANCE PROGRAMS

There are employers that have adoption assistance programs. This benefit is not taxed as income and is tax-deductible to the employer. Most of these programs are found at large employers but it is worth asking if your employer has a plan or would be willing to set one up.

## GRANT PROGRAMS

There are a limited number of adoption grant programs, but they do exist. Most programs have an application form and special requirements for approval. The majority of those who apply do not receive money but depending upon your circumstances this may be an avenue worth considering. Loving Shepherd Ministries has a list of program options.

## CHURCH

Please inquire with your church to determine if assistance is available to adoptive families.