

## **ADOPTION CREDIT AND INCOME EXCLUSION**

### **I. WHAT'S NEW THIS YEAR**

- A. The credit, income exclusion, and modified adjusted gross income phase-out threshold amounts are indexed for inflation beginning in 2003. The 2003 maximum credit and income exclusion each increase to \$10,160 (\$10,000 in 2002), with the modified adjusted gross income phase-out threshold rising to \$151,940 (\$150,000 in 2002).
- B. Beginning in 2003, the \$10,160 credit for a special needs adoption is allowed in the year the adoption is final regardless of whether the taxpayer has qualified adoption expenses.

## **II. CREDIT FOR ADOPTION EXPENSES (IRC SEC. 23)**

The nonrefundable personal credit is available to certain taxpayers for eligible expenses incurred in a qualified adoption.

- A. The general provisions for the credit for adoption expenses include:
1. Taxpayers may claim a credit of up to \$10,160 regardless of the child's need.
  2. Benefit dollar limitations are based on the adoption of each child and are cumulative over all taxable years (not an annual limitation). This includes any amounts paid for qualified adoption expenses in connection with any unsuccessful attempts to adopt an eligible child before the successful final adoption of another child.
  3. The adoption must be of an eligible child. An eligible child is any child:
    - a. Under the age of 18 at the time of the adoption, OR
    - b. Physically or mentally incapable of caring for themselves
  4. An eligible child with special needs must meet two additional requirements:
    - a. The State has determined the child cannot or should not be returned to his/her parents, and because of certain circumstances such as ethnic background, age, physical, mental or emotional handicaps, cannot be placed with adoptive parents without providing adoption assistance and
    - b. The child is a citizen or resident of the United States.