



Taxes Benefits for Resource Families

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Welcome!

We're excited for today's training session on adoption assistance and taxes for resource families.





About Families Rising

Our mission is to amplify those with lived experience, assist adoptive, foster, and kinship parents, educate child welfare professionals, and champion the well-being of children and families.

Learn more at
wearefamiliesrising.org



At Families Rising, we:

- ***SUPPORT*** adoptive, foster, and kinship parents and young people
- ***EDUCATE*** child welfare professionals
- ***ADVOCATE*** that children and families have support

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Today's Agenda



Claiming Children as Dependents



Recovery Rebate Credit - 2021



Federal Adoption Tax Credit

Claiming Children as Dependents



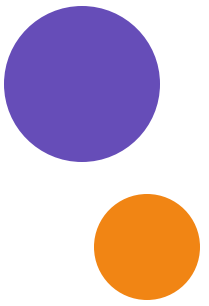
Claiming Children as Dependents

- To claim a child there are five tests that must be met:
 1. Relationship Test
 2. Age Test
 3. Residency Test
 4. Support Test
 5. Joint Test

From IRS Publication 501



Relationship Test



Relationship Test

- To meet this test, a child must be:
- Your son, daughter, stepchild, foster child, or a descendant (for example, your grandchild) of any of them, or
- Your brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant (for example, your niece or nephew) of any of them.
- **Adopted child.** An adopted child is always treated as your own child. The **term “adopted child” includes a child who was lawfully placed with you for legal adoption.**
- **Foster child.** A foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Age and Residency Test

Age Test

- To meet this test, a child must be:
- Under age 19 at the end of the year and younger than you (or your spouse if filing jointly),
- A student under age 24 at the end of the year and younger than you (or your spouse if filing jointly), or
- Permanently and totally disabled at any time during the year, regardless of age.

Residency Test

- To meet this test, your child must have lived with you for more than half the year. There are exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.
- ***Death or birth of child.* A child who was born or died during the year is treated as having lived with you more than half the year if your home was the child's home more than half the time he or she was alive during the year. The same is true if the child lived with you more than half the year except for any required hospital stay following birth.**

Support and Joint Test



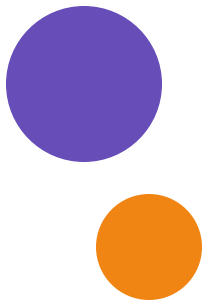
Support Test (To Be a Qualifying Child)

- To meet this test, the child can't have provided more than half of his or her own support for the year.
- *Foster care payments and expenses.* Payments you receive for the support of a foster child from a child placement agency are considered support provided by the agency. Similarly, payments you receive for the support of a foster child from a state or county are considered support provided by the state or county.

Joint Return Test (To Be a Qualifying Child)

- To meet this test, the child can't file a joint return for the year.

What does claiming children do?



It allows the family to claim a credit

- For children under the age of 17 at the end of the tax year, there will be a \$2,000 Child Tax Credit.
- For children 17 or older who are claimed as a dependent, there is a \$500 Other Dependent Credit
- A Social Security Number must be established with the Social Security Administration prior to filing your taxes. You are not able to amend your return and receive the Child Tax Credit if the child did not have a Social Security Number by the time you filed your taxes.
 - Some families file for extension (up to October 15) to access this credit.
 - We are hoping for Congress to change these rules.

Recovery Rebate Credit





Stimulus Checks

- Stimulus checks were paid out automatically to the family that had previously claimed them.
- For families that did not receive that payment, they can claim the stimulus payment amount by completing the information for the Recovery Rebate Credit.
 - The IRS does not go after those who receive the stimulus check to get the money back
- This impacted newborns in domestic infant adoptions, as well as newer foster/adoptive placements.



Stimulus Checks

- Stimulus checks are called Economic Impact Payments (EIP)
 - EIP 3 was in April 2021 and was \$1,400 for adults and children
- Income phaseout
 - Single filers - \$80,000
 - Head of Household filers- \$120,000
 - Married Filing Jointly - \$160,000
- For EIP 1 and 2 in 2020, it is too late to amend to receive those benefits. For EIP 3, families must amend by April 15, 2025 or if they filed an extension for their 2021 taxes, 3 years from that filing date.

Adoption Tax Credit





ATC Eligibility

To be eligible for the federal adoption tax credit, you must:

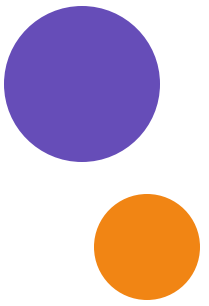
- Have adopted a child (other than a step-child)
- The child must be under 18 years old at the time of adoption
- Have a modified adjusted gross income below a certain income.
- Either have adopted a child determined by the state to have special needs OR have qualified adoption expenses; children determined to be special needs qualify for the maximum tax credit.

Income Limits

Year claiming credit	Maximum amount	Lower MAGI amount	Upper MAGI amount
2025	\$17,280	\$259,190	\$299,190
2024	\$16,810	\$252,150	\$292,150
2023	\$15,950	\$239,230	\$279,230
2022	\$14,890	\$223,410	\$263,410
2021	\$14,440	\$216,660	\$256,660
2020	\$14,300	\$214,520	\$254,520
2019	\$14,080	\$211,160	\$251,160
2018	\$13,810	\$207,140	\$247,140
2017	\$13,570	\$203,540	\$243,540
2016	\$13,460	\$201,920	\$241,920

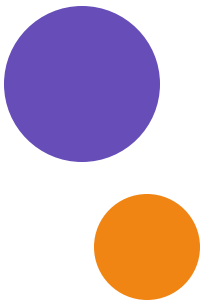
This is a one time credit per child.

Income Tests and Filing Status



- The income test is only applied in the year you are claiming the credit. It does not apply if you are only carrying forward credit from a previous year.
- You cannot file Married Filing Separately (MFS) in the year you claim the credit. If you are Married but separated:
 - You lived apart from your spouse during the last 6 months of the year
 - The eligible child lived in your home more than half of the year
 - You provided over half the cost of keeping up your home
- Then you must file Head of Household, not MFS, in the year you claimed the credit.

Special Needs for Adoption Credit



- Children who receive adoption assistance are considered “special needs” as determined by the state.
- That state determination means they are special needs for the IRS.
- Families need to check that box even if their child has no disabilities. (see instructions Line 1 (d) Example 1)
 - The box that asks disabled, do not check, that is for youth that are over 18 at the time of adoption
- If the child is determined special needs, when asked about expenses, they enter the full amount of \$16,810 (2024) into the software (see instructions Line 5 Special Needs).

Special Needs Definition - Line 1(d)



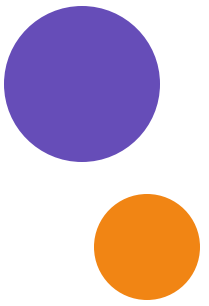
Example 1.

Agency A is the child welfare department of State V. Mark, Rachel, and Janet, brother and sisters, are U.S. children residing in State V. When Mark was 10, Rachel 8, and Janet 6, Agency A removed the children from the home of their biological parents.

After Agency A placed the children in foster care, Agency A determined it would be difficult to place the children for adoption without providing assistance to the adoptive family because of the ages and sibling relationship of the children. Agency A provided the adoptive parents with monthly subsidy payments on behalf of each child. **The adoption assistance agreements entered into between Agency A and the adoptive parents are evidence that State V has determined that Mark, Rachel, and Janet are children with special needs.**

Their adoptive parents may claim an adoption tax credit for each child, even if the adoptive parents paid no qualifying adoption expenses, if all other requirements of the credit are met.

Special Needs Definition – Line 5



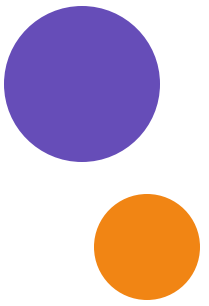
Special needs adoption.

If you adopted a U.S. child with special needs and the adoption became final in 2023, enter on line 5:

- \$15,950, minus
- Any qualified adoption expenses you used to figure any adoption credit you claimed for the same child in a prior year. This is the amount you entered on line 3 of Form 8839 for this child.

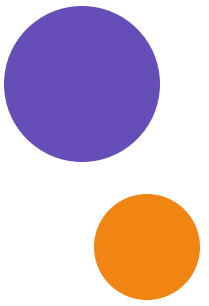
If you didn't claim any adoption credit for the child in a prior year, enter \$15,950 on line 5 even if your qualified adoption expenses for the child were less than \$15,950 (**and even if you didn't have any qualified adoption expenses for this child**).

Filing and record keeping



- Beginning with 2013 families could e-file their returns. They did not have to file a paper return.
 - For domestic private adoptions without a taxpayer ID number for the child or a child isn't known yet, they will have to paper file.
- Families do not have to send in supporting documentation like they had to for 2010 and 2011. However, families should keep these documents handy in case the IRS audits them.

Documenting the Adoption



- For all domestic adoptions, a **court decree** (the papers from the judge/court that shows you adopted)
- For international adoptions, foreign adoption decree translated into English, Hague Adoption Certificate, some Visas.
- For special needs adoptions, you need proof that the state has determined that the child has special needs. Your **adoption assistance agreement** (adoption subsidy agreement) is the proof.
- For private domestic and international adoptions that are not determined special needs, you should keep copies of bills, receipts and proof of payment to show that you had qualified adoption expenses and that you paid them.

Definitions

- Claim — This means that you are filing that you are eligible to get the credit.
- Use — Once you claim the credit, you have to be able to use it. Your ability to use the credit will be limited by your tax liability for the year.
- Tax liability — This is the amount you are responsible for in federal income tax for the year.



Base Example of Taxes

- Families Rising withholds \$4,000 from my paychecks to pay my federal income tax.
- When I complete my taxes, the tax tables say I owe \$3,000 in income tax.
- I have no credits, and no other taxes.
- I get a refund of the \$1,000 I overpaid. So even though I get a refund, I owed \$3,000 in income tax.
- With an adoption of one child with \$16,810 in adoption tax credit.
- My tax liability is \$3,000 and it is reduced to \$0 by \$300 in Child Tax Credit and \$2,700 in Adoption Tax Credit. My payments are \$4,000 in withholdings, and \$1,700 in refundable Additional Child Tax Credit for a total \$5,700 which will be the size of the refund.
- I will have \$14,110 in carryforward for 2025 tax year.
 - You have five additional years to use the credit (for a total of six years)

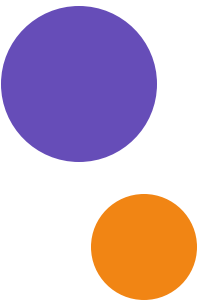
NOTE: the \$300/\$1,700 split of the child tax credit could be changed by Congress

Save the Adoption Tax Credit

- Families Rising has worked with other national groups to extend the adoption tax credit (successful) and make it refundable (not successful)
- We are advocating for it to be refundable in 2025 and going forward.
- Join our Facebook page: <https://www.facebook.com/AdoptionTaxCredit>
- Get connected to Families Rising News e-newsletter.
- See our webinar on advocacy at www.adoptiontaxcredit.org
- If you Adjusted Gross Income is below \$30,000 the adoption tax credit probably won't help you one cent if it isn't made refundable (based on pre Tax Reform data—which seems to still be accurate)

Prior years

- You can amend prior years.
- The IRS only allows a credit within past three years. So currently back to 2021.
- For adoptions finalized in 2016-2020 there may be a possibility of benefiting, please contact me to discuss your specific tax situation.



Today's Presenter



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Thank you!

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wearefamiliesrising.org

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