



METZ LEWIS
ATTORNEYS AT LAW

LARRY S. BLAIR
412.918.1123
lblair@metzlewis.com

Personal Client Services

TAX ADVISORY

Tax Benefits Available for the Adoption of a Child

Adoption Tax Credit for Expenses

The Adoption Tax Credit is a non-refundable tax credit for qualifying adoption expenses. The maximum credit for 2008 is \$11,650 for each eligible child adopted by an individual or couple and is cumulative over all tax years in which the credit is claimed. Children for whom a credit may be claimed must be under the age of 18 or physically incapable of caring for themselves. The Credit may not be claimed for the expense of adopting a spouse's child. Qualifying adoption expenses include:

- Reasonable and Necessary Adoption Fees
- Court Costs and Attorney Fees
- Travel Expenses Related to the Legal Adoption of An Eligible Child
- State Mandated Costs of Construction, Renovations, Alterations or Purchases Required to Meet the Child's Needs

Benefits for Special Needs Adoptions

Parents who are adopting a special needs child may claim the maximum allowable Credit in the year the adoption is finalized, even if the qualifying expenses are less than the maximum. A child is a special needs child if the child is a citizen or resident of the United States, a State has determined that the child cannot or should not be returned to the home of the parents and that the child probably will not be adopted unless assistance is provided.

Foreign Adoptions

The Credit may be claimed for adoption of a child who is not a citizen or a resident of the United States, but only if the adoption becomes final. All qualified expenses paid for the adoption of a foreign child must be claimed in the tax year the adoption becomes final, even if actually paid in prior years.

Employer Adoption Assistance Programs

Some employers have adoption assistance programs that provide financial assistance to adopting employees through reimbursement or direct payment of qualified adoption expenses. Up to \$11,650 of adoption expenses paid by the employer can be excluded from an employee's gross income for federal tax purposes in the tax years in which the payments were made. The adoption assistance program income exclusion provides extra exclusions that may be claimed in the year in which the adoption of a special needs child becomes final, and restrictions on claiming the exclusion for expense paid for a foreign adoption until it becomes final. Adopting parents who are Pennsylvania residents should note that payments made by an employer under an adoption assistance program are taxable to the employee for Pennsylvania income tax purposes.

METZ LEWIS LLC

11 Stanwix Street

18th Floor

Pittsburgh, Pennsylvania 15222

PHONE: 412.918.1100

FAX: 412.918.1199

WEB: www.metzlewis.com



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Adopting parents can claim the benefit of the income exclusion for adoption expenses paid by their employers and also claim the Adoption Tax Credit for additional unreimbursed expenses that the parents paid during the adoption process.

Who Can Claim These Benefits

For 2008, the Credit and the exclusion are reduced for individuals and couples with a modified adjusted gross income of over \$174,730 and are fully eliminated with a modified adjusted gross income of over \$214,730.

Dependency Exemption

An adopted child may be claimed as a dependent of the adopting parent.

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The benefits available for adoption are rather complex and interrelated. However, these important benefits should not be overlooked as a family goes through the joyous adoption process. For more information, please contact Larry S. Blair.

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