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Return of the Adoption Tax Credit

Last year, the adoption tax credit was one of the most welcome credit to taxpayers because through it many taxpayers received huge refunds. Although the credit has been around since 1997, it had been a non-refundable credit i.e. it was to offset any taxes owed and any remainder is to be carried forward to offset the following year's taxes. However, last year when the President signed the Affordable Care Act 2010, the adoption tax credit became a refundable credit meaning the credit will be paid to you rather than used to offset taxes. Furthermore, this year the amount of refund you can claim is increased by \$190 to \$13,360 for each child you adopted in the past six years.

The adoption tax credit has been especially helpful for families adopting children with special needs. Such parents can be granted the entire \$13,360 credit regardless of the expenses they incurred in adopting a child. At the same time, families adopting children who do not have special needs are generally able to get a refund for their adoption expenses.

But since this credit is so generous, the IRS is very particular about who qualifies for it. If you feel you should be granted this credit, be prepared to go through a lot of paperwork and make numerous calls to the IRS to get your money. You might possibly have to go through an audit as well. In fact, the Governmental Accountability Office (GAO) reported that it found "considerable" delays in awarding the credit because of the large number of audits the IRS conducted in processing the adoption tax credit claims last year.

A staggering 68% of the nearly 100,000 adoption tax credits claims were audited last year. However, the IRS only required about 17% of those claimants to pay more in taxes. In total, the GAO reported that \$1.2 billion in adoption tax credits were claimed last year.

Generally, you can expect a wait of at least a couple of months to obtain you credit assuming all documentation submitted is in order. But if the IRS doesn't receive the right documentation, it will spend extra time ensuring that the claim isn't fraudulent, said IRS spokesman Terry Lemons. "When you have a credit of this size it's really important for us to make sure we have the documentation so we get it only to the people who qualify," he said.

If you are interested in making a claim for the adoption tax credit, you should visit the IRS website at www.irs.gov to find out the documents needed to be filed. Generally, you are required to submit a paper return when claiming this credit. The amount of credit phases out for taxpayers making more than \$185,210, and families with income of more than \$225,210 will not qualify for the credit.