

Making Adoption More Affordable: Key Improvements to the Adoption Tax Credit

Adopting a child is one of the most rewarding decisions a family can make, but the financial burden can be substantial. Recent improvements to the Adoption Tax Credit are making this life-changing decision more accessible for families across the country.

Understanding the Adoption Tax Credit:

The Adoption Tax Credit helps offset the costs of adopting an eligible child under age 18 or a person who is physically or mentally incapable of self-care. For tax year 2025, families can claim up to \$17,280 in qualified adoption expenses. This limit is adjusted annually for inflation, ensuring the credit keeps pace with rising adoption costs.

The Game-Changing Improvement:

The most significant enhancement to the Adoption Tax Credit is that up to \$5,000 of the credit is now refundable for tax years beginning after 2024. This \$5,000 refundable amount is also adjusted annually for inflation.

Why does this matter? Previously, the entire credit was nonrefundable, meaning it could only reduce your tax liability to zero. If your tax bill was less than your credit amount, you couldn't benefit from the full credit in that year. Now, with the refundable portion, eligible families can receive up to \$5,000 back even if they owe little or no tax. This puts real money back in the pockets of adoptive families when they need it most.

What Expenses Qualify:

The credit covers reasonable and necessary expenses directly related to the legal adoption, including adoption fees, attorney fees, court costs, travel expenses (including meals and lodging while away from home), and re-adoption in state court.

However, certain expenses don't qualify, such as costs to adopt a spouse's child, surrogate parenting expenses, or amounts paid or reimbursed by an employer or governmental agency.

Income Phaseout Considerations:

The credit begins to phase out when adjusted gross income exceeds \$259,190 for 2025, completely phasing out at \$299,190. This ensures the credit targets families who need the financial assistance most while still providing benefits to middle and upper-middle income families.

Carryforward Provision:

If you can't use the entire credit in one year, any unused portion can be carried forward to the next five years or until used, whichever comes first. This flexibility ensures families don't lose the benefit simply because of timing.

The Bottom Line:

These improvements to the Adoption Tax Credit represent a meaningful step toward making adoption more financially feasible for American families. The refundable component particularly helps lower and middle-income families who might otherwise struggle to afford adoption costs. By providing both immediate cash benefits through the refundable portion and long-term tax savings through the nonrefundable portion, the enhanced credit supports families throughout their adoption journey.

If you're considering adoption, consult with a tax professional to understand how these credits can help offset your specific adoption expenses and maximize your tax benefits.

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770.