

Family, Home, and Job: Prepare for Your New Baby

Filing Guide

IRS Publication 929:
[Tax Rules for Children and Dependents](#)

Land Mines

Adopting a child can cost up to \$40,000 or more. The adoption credit has been helping families offset those costs since 1996. However, the IRS takes a careful look at adoption credits: the Taxpayer Advocate reported that in 2012, the IRS selected 69% of returns claiming the credit for audit. Don't be afraid to claim this valuable credit -- just be careful to dot your "i"s and cross your "t"s and be prepared to substantiate your expenses.

The U.S. Department of Agriculture estimates that the average "affluent" family (earning over \$107,000) spends \$372,210 to raise a child through age 17. That's *before* college, grad school, the wedding, and the down payment on that first home. The tax code offers all sorts of goodies for parents. But they're not likely to add up to \$372,210. So you'll need to claim every break you can! Be sure to file a new W-4 or revise your quarterly estimates as early as possible for the year the child will be born or adopted.

Child Tax Credit

The Child Tax Credit is a credit of up to \$2,000, refundable up to \$1,400, for each dependent child, grandchild, stepchild, or foster child under age 18. For 2021 only, the credit phased out by \$50 for each \$1,000 or fraction that your AGI exceeded \$400,000.

For 2021 only, the American Recovery Plan Act increased the credit from \$2,000 to \$3,000 per child. It added a \$600 bonus for children under age 6. It extended the reach of the credit to 17-year-olds. And finally, it made the credit fully refundable for 2021.

Adoption Assistance/Adoption Tax Credit

Employer-provided adoption assistance is nontaxable income up to \$16,810 per year (2024). The adoption tax credit is a credit against your tax for the costs of adopting a child:

- You can claim up to \$16,810 in credit for "qualified adoption expenses" including "reasonable and necessary fees," court costs, attorney fees, and similar expenses.
- It phases out for AGIs starting at \$252,150.
- If your employer offers tax-free adoption assistance, you can claim the credit for expenses above and beyond that employer reimbursement.
- If you adopt a U.S. citizen or resident, claim the credit the year the adoption is final. If you pay expenses in any year before the adoption becomes final, claim the credit in the year after the year you pay the expenses. If you adopt a foreign child, claim the credit in the year the adoption becomes final.
- You can claim the credit up to your entire year's tax (minus child and dependent care credits, elderly or disabled credits, and tentative AMT). If your credit is more than your tax, you can carry the unused balance forward for up to five years.