

North Carolina Department of Health and Human Services Division of Social Services

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Raleigh, North Carolina 27699-2408
Courier # 56-20-25

Michael F. Easley, Governor
Director
Carmen Hooker Odom, Secretary

Pheon E. Beal,
(919) 733-3055

March 4, 2003

DEAR COUNTY DIRECTOR OF SOCIAL SERVICES:

Attn: Child Welfare Supervisors
Adoption Supervisors

Re: **TAX BENEFITS FOR ADOPTIVE PARENTS WHO ADOPTED AFTER
JANUARY 1, 2003**

Please inform all adoptive parents who adopt after January 1, 2003 of the following:

As a result of a federal law (P.L. 107-16) enacted in June 2001, but not fully effective until January 1, 2003, those who adopt special needs children from the foster care system - beginning this year - are entitled to a \$10,160 "flat tax credit" without having to show any adoption-related expenses. Proof of those costs had been required before, when the tax credit was actually smaller.

This means that - for families whose adoptions become final in 2003, where the family earns less than \$150,000 per year - they can receive the full \$10,000 credit on their 2003 tax return when they file in 2004. Those families earning \$150,000-189,999 per year will receive a steadily reduced proportion of the credit. Since this is a nonrefundable tax credit, families with low federal tax burdens cannot get the \$10,000 plus refunded to them. However, the law now says they can claim the credit in pieces over a 5-year period, so lower-income adopting families should be able to take full advantage of this significant tax relief. In addition, the law provides for the amount of the tax credit, and the upper-level of family income eligibility, to be adjusted annually by the rise in the cost of living. That's why the 2003 amount has already been set at \$10,160 rather than \$10,000 as enacted.

These changes in federal law were the result of Section 202 the Economic Growth and Tax Relief Reconciliation Act of 2001. That law also raised the adoption tax credit beginning in 2002 to \$10,000 generally, but except for special needs adoptions finalized after 2002 the credit is still limited to a family's actual "qualifying" adoption expenses (which for special needs adoptions have been estimated by the Treasury Department as an average of \$3,400 per family).

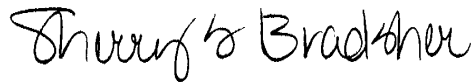
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The current IRS document that explains all the above and other tax benefits of adoption is Publication 968; this publication can be found at:

<http://www.irs.gov/pub/irs-pdf/p968.pdf>

Adoptive parents should be advised to contact their tax preparer about this information.

Sincerely,



Sherry S. Bradsher
Deputy Director

cc: Pheon Beal
Children's Services Team Leaders
Children's Services Representatives

CS-06-03