



Indiana Department of Revenue

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Income Tax Information Bulletin #111

Subject: Income Tax Credit for Eligible Adoptions

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Effective Date: January 1, 2022 (retroactive)

References: IC 6-3-3-13; IRC section 23

Replaces Bulletin #111, dated March 2015

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Summary of Changes

Other than technical, nonsubstantive adjustments, this bulletin is updated to reflect that the maximum allowable credit per eligible child is increased to \$2,500 or 20% of the federal credit, whichever is less, to reflect that the credit has been changed to a refundable credit, and to reflect documentation that the department may request for credit verification.

Introduction

House Enrolled Act 1222 (2014) added IC 6-3-3-13 effective Jan. 1, 2015, creating an Indiana adjusted gross income tax credit for individuals who are eligible to claim the federal tax credit for eligible adoption expenses. Senate Enrolled Act 2 (2022(ss)) amended IC 6-3-3-13 to provide that the credit for tax year 2022 and later is increased to the lesser of \$2,500 per eligible child or 20% of the federal adoption credit. In addition, the legislation provided that the credit for tax year 2022 and later is refundable if the credit exceeds the taxpayer's Indiana adjusted gross income tax liability.

Amount of Credit

An individual who is eligible to claim the federal credit for adoption on the individual's federal return for the taxable year is entitled to a credit against the individual's Indiana adjusted gross income tax liability. The credit is equal to the lesser of:

- (1) The amount of the credit allowable on the federal income tax return for each eligible child on the individual's federal return for the taxable year multiplied by 20%; or
- (2) \$2,500 for each eligible child.

In the case of a child for whom a federal adoption credit is available for multiple years (e.g., a federal credit carryforward or expenses incurred such that the federal credit is allowable in multiple years), the maximum Indiana adoption credit for the eligible child is limited to \$2,500 for all years. The \$2,500 limit for 2022 and later is also reduced by any pre-2022 Indiana adoption credits claimed for the eligible child.

Effective for tax year 2022 and later, if the Indiana adoption credit exceeds a taxpayer's Indiana adjusted gross income tax liability, the excess Indiana adoption credit is treated as a refundable credit to the taxpayer. In other words, if a taxpayer's Indiana adjusted gross income tax liability for 2022 is \$1,500 before credits and the Indiana adoption credit for 2022 is \$2,000, the full \$2,000 credit is allowed in 2022.

For purposes of applying the limitation, the federal credit for a taxable year will be prorated across the federal credit allowable for each child. In addition, if a federal adoption credit is claimed over multiple years, this computation will be made separately each year for the federal credit determined for that taxable year.

Example #1: An Indiana couple adopted two children in 2021. The couple was permitted a federal tax credit of \$27,000 for 2021 adoption expenses, incurred evenly across both children. However, the couple was only permitted to claim a \$3,000 federal credit in 2021 due to their 2021 federal tax liability. The couple claimed a \$300 credit for Indiana (\$150 per child). In 2022, the couple was permitted to claim the remaining \$24,000 of federal credit, \$12,000 per eligible child.

The first test (federal credit times 20%) results in an Indiana adoption credit of \$2,400 for each child. However, because the couple previously claimed \$150 in credit for each child in 2021, the maximum Indiana adoption credit per child is \$2,350 (\$2,500-\$150). Thus, the couple's Indiana adoption credit is limited to \$4,700 (\$2,350 per child times 2). The entire \$4,700 must be claimed in 2022.

Example #2: A taxpayer adopts two children in 2022. For Child 1, the federal adoption credit prior to federal limitations is \$14,000. For Child 2, the federal adoption credit prior to federal limitations is \$11,000. The combined credit for 2022 prior to any federal limitations based on tax liability is \$25,000. The federal limitation for 2022 is \$10,000 due to the taxpayer's federal tax liability. The federally-limited credit will first be prorated so that the credit for Child 1 is \$5,600 ($\$14,000/\$25,000*\$10,000$) and the credit for Child 2 is \$4,400

(\$11,000/\$25,000*\$10,000). The 20% Indiana limitation will be applied so that \$1,120 of the credit will be allowable for Child 1 and \$880 for Child 2 for 2022. This \$2,000 (\$1,120+\$880) total is allowable for 2022.

In 2023, the taxpayer claims the remaining \$15,000 of the 2022 federal credit and also claims an additional \$1,000 for 2023 with regard to allowable expenses incurred for Child 2. The federal adoption credit for 2023 attributable to Child 1 is \$8,400 (\$15,000*.56 for 2022) and \$7,600 (\$11,000*.44, or \$6,600, for 2022 and \$1,000 for 2023) for Child 2. The first Indiana adoption credit calculation for Child 1 is \$1,680 (\$8,400*20%). However, due to the \$2,500 per child limitation, the allowable credit for Child 1 is \$1,380 (\$2,500-\$1,120).

For Child 2, the first Indiana adoption credit calculation is \$1,520 (\$7,600*20%). The second Indiana adoption credit limitation is \$1,620 (\$2,500-\$880). The allowable Indiana adoption credit for 2023 is \$1,520, the lesser of these amounts. Thus, the total Indiana adoption credit for 2023 is \$2,900 (\$1,380 for Child 1 plus \$1,520 for Child 2).

Example #3: For 2022, a taxpayer has a credit of \$14,000 prior to federal limitations with regard to adoption expenses incurred for one child. However, due to the income phaseout under IRC section 23, the taxpayer's federal credit is reduced to \$10,000. The taxpayer claims the entire \$10,000 as a federal credit in 2022. The Indiana adoption credit is \$2,000. The federal income phaseout for the adoption credit reduces the amount allowable for federal purposes and for Indiana.

Recordkeeping and Other Requirements

When claiming the Indiana adoption credit, keep a copy of your federal Form 8839 for the current year and any previous years from which the credit was carried forward. The department may request a copy of the Form 8839 for the current and previous years in order to verify the proper amount of the credit including any prior-year worksheets. In addition, if the child for whom you are claiming is not listed as your dependent, you may be asked to provide information explaining why the child is not listed as a dependent child.

If the federal adoption credit is adjusted, this could result in an adjustment to the Indiana tax liability. Any federal change to the adoption credit must be reported to Indiana by filing an amended Indiana income tax return within 180 days of the date the federal adjustment is finalized.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.



Robert J. Grennes, Jr.
Commissioner
Indiana Department of Revenue