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MILITARY ADOPTION EXPENSE REIMBURSEMENT AND TAX CREDITS

Adoption can be expensive, but military members may be eligible for reimbursement of reasonable and necessary adoption expenses of up to \$2,000 per child and \$5,000 per calendar year. Additionally, taxpayers may claim a tax credit and/or income exclusion of up to \$13,460 (amount subject to change annually) per child for qualified adoption expenses.

Adoption Expense Reimbursement Procedure

Member contacts local military personnel flight (MPF) for guidance and copies of the application form (DD Form 2675, *Reimbursement Request for Adoption Expenses*) Member provides required documentation, including: certified copy of adoption certificate or order (with certified translation to English if necessary), and receipts/canceled checks substantiating expenses. Unit commander certifies claim's validity in Section VI of the completed DD Form 2675. MPF forwards the package to the Defense Finance and Accounting Service (DFAS) by certified mail for review, decision, and payment. Detailed instructions are in DoD 7000.14-R, *Department of Defense Financial Management Regulations* (FMRs).

Time Limitations

The member must be on active duty when adoption becomes final. Member must also be on active duty and have served at least 180 consecutive days on active duty when he/she files a claim. Member must file no later than 1 year after the adoption is final (or 1 year after child's U.S. citizenship in a foreign adoption). Benefits may be paid only after the adoption is final.

Qualifications

Reimbursement is limited to "qualifying" adoptions Qualifying adoptions include adoption of a child under 18 years of age, adoption by a single person, an intercountry adoption, adoption of a child with special needs (as defined by 42 U.S.C. § 673(c)), and adoption of stepchild by military member. Adoption must have been arranged by either a qualified adoption agency or other source authorized to place children for adoption under State or local law. Reimbursement is limited to "qualifying" expenses Must be "reasonable and necessary" adoption expenses: agency fees, placement fees, legal fees and court costs, certain medical expenses, and required temporary foster care fees. Travel costs are not reimbursable (but see Tax Credit below). A member cannot be reimbursed twice for same expense. Expenses paid to or for a member of the Armed Forces under any other adoption benefits program administered by the Federal Government or under a state or local government program are not reimbursable by military. In case of married service members, only one member may claim expenses for each adopted child and the couple is limited to the \$5000 per calendar year maximum.

Tax Credit and Exclusions

As of 2021, taxpayers are able to claim a combined tax credit and/or income exclusion of qualified expenses up to \$14,440 per eligible adopted child (subject to change each year). Claim credit or exclusion by completing and returning an Internal Revenue Service (IRS) Form 8839 with IRS Form 1040. An eligible child is an individual who is under the age of 18, or is physically or mentally incapable of self-care. Stepchild adoption does not qualify. Cannot claim both the tax credit and income exclusion for the same expenses. Taxpayer may claim an income exclusion for any reimbursement of adoption expenses paid by employer. Must claim any allowable exclusions before claiming any allowable credit, and those exclusions reduce the amount of available credit. The credit is not refundable to taxpayer; it is limited to taxpayer's tax liability. Taxpayer may claim credit for adoption expenses incurred over multiple tax years for the same adoption, but the total benefit may not exceed the \$14,440 (as of 2021) per child. For domestic adoption, qualified expenses paid before the year the adoption becomes final are allowable as a credit the tax year after paid (even if the adoption is never finalized)

For foreign adoption, qualified expenses paid before and during the year are allowable as a credit for the year the adoption is final. Qualified adoption expenses paid after the adoption is final are allowable as a credit for the year of payment (foreign or domestic). Qualified adoption expenses consist of reasonable and necessary adoption fees, court costs, attorney fees, travel costs and other expenses which are directly related to the adoption of an eligible child. The credit can be claimed even if the adoption is unsuccessful, except in the case of a foreign adoption

References

10 U.S.C. § 1052

42 U.S.C. § 673(c)

DoDI 1341.09, *DoD Adoption Reimbursement Policy* (3 November 2007), incorporating Change 1, 23 April 2009

DD Form 2675, *Reimbursement Request for Adoption Expenses* (July 2016)

DoD Financial Management Regulations, 7000.14-R, Vol 7A, Appendix A, *Reimbursement of Adoption Expenses* (September 2015)

IRS Form 8839, *Qualified Adoption Expenses*

IRS Topic 607–*Adoption Credit and Adoption Assistance Programs*