

Adoption Assistance FSA

HELP MAKE ADOPTION MORE AFFORDABLE

Adoption Assistance Accounts allow employees to set aside pre-tax funds to pay for adoption-related expenses that are incurred in connection with the adoption (or in certain cases, the attempted adoption) of a child.

An **Adoption Assistance FSA** through a flexible benefit plan may, in addition to allowing pre-tax salary deductions, make other contributions available for adoption assistance benefits, such as employer flex credits, seed or matching contributions. The maximum amount for the Adoption Assistance exclusion/credit is set by the IRS and may change from year to year.

ELIGIBLE EXPENSES

Acceptable adoption-related expenses are defined in section 23(d)(1), which include:

- Reasonable and necessary adoption fees
- Court costs and attorney fees
- Traveling expenses (which includes the amounts spent for meals and lodging while away from home)
- Other expenses that are directly related to and for the principal purpose of the legal adoption of an eligible child

Expenses must be for the legal adoption of an "eligible" child. An expense may be an eligible adoption expense even if the expense is paid before an eligible child has been identified.

WHAT TO KNOW

- It must not discriminate in favor of highly compensated employees.
- Elections must be prospective. They also must be irrevocable during the plan year. However, elections may be prospectively changed or revoked in the event of the commencement or termination of an adoption proceeding.
- Reimbursement is limited to the account balance for services provided in the time frame specified in the Plan Highlights.
- The unused account balance remaining at end of the run-out period specified in the Plan Highlights is forfeited.

ADOPTION GUIDELINES

DOMESTIC ADOPTIONS

- Eligible child must be a U.S. citizen or resident.
- Services can be reimbursed if the adoption never becomes final, as long as services were provided within time frame in Plan Highlights.

FOREIGN ADOPTIONS

- Eligible child is not a U.S. citizen or resident.
- Services can be reimbursed if the adoption never becomes final, as long as services were provided within time frame in Plan Highlights.

CHILD WITH SPECIAL NEEDS ADOPTIONS

- Eligible child must be a U.S. citizen or resident who cannot or should not be returned to their parents' home.
- Probably will not be adopted unless adoption assistance is provided to the adoptive parents.
- Factors used by states to determine if a child has special needs could include the child's ethnic background, the child's age, whether the child is a member of a minority or sibling group and whether the child has a medical condition or physical, mental or emotional handicap.

An Adoption Assistance Account must be elected during open enrollment. The tax year you can claim the credit depends on when expenses are paid; whether it's a domestic or foreign adoption; and when, if ever, the adoption was finalized.