

Benefits Insights

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Adoption Benefits

A growing number of employers are offering some form of adoption benefits as part of their employee benefits package. Advantages to offering this benefit, according to employers, include employee retention, equity in benefits for all employees and a positive public image. This article examines the types of benefits that are commonly offered, along with legal and tax implications associated with employee adoption benefits.

Types of Benefits

Adoption benefits can take many forms, but are generally divided into three categories: information resources, financial assistance and time off.

- **Information Resources**—These resources can include referrals to adoption agencies, support groups and access to other information. Employers may contract with a human resources consulting firm in order to offer these services.
- **Financial Assistance**—Adoptions are very expensive and include fees, travel, court and other expenses. Some employers choose to offer a lump sum payment to help with any adoption expenses. Others may pay certain fees, including legal fees, medical expenses for the child, counseling fees, agency fees and travel expenses, among others. In addition, some employers offer higher financial reimbursement rates for employees who adopt a child with special needs.
- **Time Off**—The last type of benefit is parental leave associated with the adoption. FMLA requires that employees be allowed 12 weeks of unpaid leave for the adoption of a child and care for that child during the first year. Employers may choose to offer paid and/or extended leave, in place of or in conjunction with the FMLA leave.

Legal Considerations

- **HIPAA**—There is a special enrollment period for employer-sponsored health plans for new dependents, including adopted children. If an adopted child is enrolled in the plan within 30 days of the adoption, then the child is not subject to any waiting period before coverage begins.
- **COBRA**—An adopted child falls under the definition of a qualified beneficiary for COBRA purposes, even if the adoption occurred after the date of the COBRA qualifying event. In other words, if an employee is receiving COBRA benefits and adopts a child, that child can also be covered under COBRA.

Tax Exclusion

A tax exclusion is available for employees who receive adoption assistance from their employer. Up to a certain limit, employees are not taxed on employer-provided adoption assistance, unless they have a modified adjusted gross income (or modified AGI) above a certain amount.

- For taxable years beginning in 2019, the excludable amount is \$14,080.
- For taxable years beginning in 2020, the excludable amount is \$14,300.

For 2019, the excludable amount begins to phase out for those with a modified AGI above \$211,160, and the exclusion is prohibited for those with a modified AGI of \$251,160 or more. For 2020, the excludable amount begins to phase out for those with a modified AGI above \$214,520, and is completely phased out for those with a modified AGI of \$254,520 or more.



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Adoption Credit

In addition, any taxpayer who adopts a child is eligible for a nonrefundable tax credit for each eligible child in the same amount as the tax exclusion. For taxable years beginning in 2019, the maximum credit allowed is \$14,080 (\$14,300 for taxable years beginning in 2020). The tax credit must be from expenses the employee paid himself or herself that were not refunded by the employer.

For 2019, the available adoption credit begins to phase out for taxpayers with modified AGI in excess of \$211,160, and is completely phased out for taxpayers with modified AGI of \$251,160 or more. For 2020, the excludable amount begins to phase out for those with a modified AGI above \$214,520, and is completely phased out for those with a modified AGI of \$254,520 or more.

Qualifications

To be eligible for either the exclusion or the credit, the adopted child must qualify as an “eligible child” and the expenses must be “qualified adoption expenses.” An eligible child is one who is under age 18 at the time of adoption, or is physically or mentally unable to care for himself or herself. Qualified adoption expenses include adoption fees, court costs, attorney fees, traveling expenses (including meals and lodging) and other expenses that are directly related to the adoption.

Providing adoption benefits not only helps out your current employees, it can also help you to recruit new talent. Because adoption is expensive, confusing and takes time, if someone is planning to adopt a child, he or she will likely be more interested in working for a company that truly supports adoption than a company that does not. Do some research to find out if offering adoption benefits is an option for you.