Tax Rules for Foster Care, Relatives Raising Kids, and Adoption

If I get money to take care of a foster child, does it count as income on my tax return?

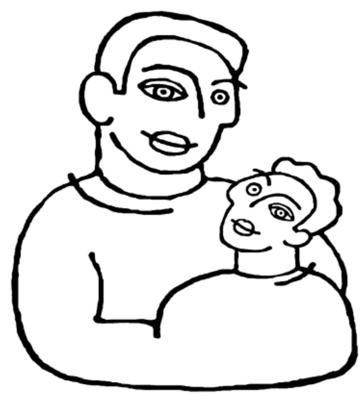
The money you get for any of these things DOESN'T count as income on your taxes.

- Cost of foster care payments
- "Difficulty of care" payments (extra money you get if you care for a physically, mentally, or emotionally disabled foster children)
- Adoption assistance that pays for childcare
- MFIP (Minnesota Family Investment Program), and SNAP (food stamps)
- Caring for 10 or fewer foster children **if** the money comes from a for-profit child welfare agency that works under a contract with a government agency

You <u>can</u> use these payments to figure out the amount of the Minnesota Child and Working Family Credits and the property tax refund.

The money you get for any of the following things is taxable and DOES count as income on your taxes.

- Caring for more than 10 foster children
- Keeping a bed available even if it is not used
- Operating a group home
- Caring for more than 5 people over the age of 19



Can my out-of-pocket costs for caring for a foster child be counted as a "charitable deduction"?

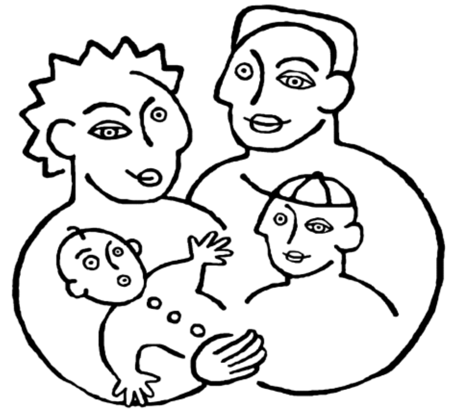
If you paid for things to help care for and support a foster child, and you didn't get the money back from the government (reimbursement), you may be able to claim this money as a "charitable donation" and end up paying less tax. Fill out Schedule A, Itemized Deductions.

Any money you spent but DID get back from the government CAN'T be claimed as a "charitable deduction."

Legal guardians can't claim a charitable deduction for out-of-pocket costs for the care and support of the child.

Claiming Someone Else on Your Tax Return

There are rules about who you can claim. The rules for a "qualifying child" and a "qualifying relative" are different. Usually, more people in your family count as a qualifying relative than as a qualifying child.



Qualifying Child

A qualifying child is:

- Your child, stepchild, eligible foster child, brother, sister, stepbrother, stepsister or a descendant of one of these relatives. This includes a child placed with you for adoption, even if the adoption is not final. An eligible foster child is any child placed with you by an authorized placement agency or court.

- The child must live with you for more than 6 months of the year in the U.S. Temporary absences for school, vacation, medical care, military service, detention in a juvenile facility, or kidnapping count as time lived at home.

  There is an exception for divorced or separated parents. The exception lets a parent who did not live with the child for more than 6 months to claim them as a dependent and claim the Child Tax Credit. But only one of the parents can claim the child. This exception does NOT apply to head of household filing status, the Child and Dependent Care Credit, or the Earned Income Tax Credit (EITC).

- The child must be younger than you unless they are permanently and totally disabled. There are different age limits for the various credits:

  - **Credit for Child and Dependent Care Expenses** – the child must be under age 13 when the care was provided. The child can be any age if they are disabled and cannot take care of themselves.

  - **Child Tax Credit** – the child must be under age 17 on December 31, 2025.

  - **Head of Household filing status and Earned Income Tax Credit (EITC)** – the child must be under age 19 or a full-time student under age 24 on December 31, 2025, or any age if permanently and totally disabled.

- The child can't have provided over half of their own support during the year. This is called the support test. Social Security benefits that the child got as the beneficiary of a deceased or disabled parent are included in the child's income. The support test does not apply when figuring out if the taxpayer has a qualifying child for the EITC.

- If the child can be claimed by a parent as a qualifying child, but neither parent claims the child NO ONE ELSE can claim the child unless their Adjusted Gross Income (AGI) is higher than the AGI of both parents. This situation can happen when extended family lives together.

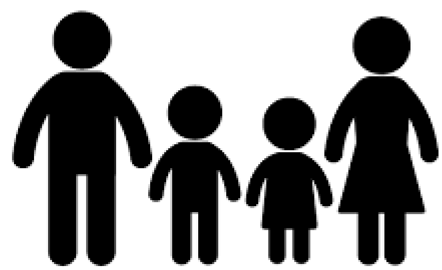
- If a child is a qualifying child for more than one taxpayer, and you can't agree on who will claim the child, the parent who lived with the child longest that year should claim the credit. If the child lived with both parents for the same length of time, the parent with the higher adjusted gross income should claim the credit.

  If the child:
  1. did not live with any parent,
  2. is a qualifying child of more than one taxpayer, and
  3. the taxpayers can't agree who should claim the child,

  then the taxpayer with the highest adjusted gross income gets the credit.

Qualifying Relative

A qualifying relative is:



- a U.S. Citizen, a U.S resident alien, a U.S. national, or lived in the United States, Canada, or Mexico, and is
- **either a member of your household for the whole year** (even if not related to you), or is
- a family member who may or may not live with you like:
  - your child, grandchild, great grandchild, stepchild,
  - your brother, sister, half-brother, half-sister, stepbrother, stepsister,
  - your parent, grandparent, stepparent,
  - your aunt or uncle, niece, or nephew,
  - your father-in-law, mother-in-law, son-in-law, daughter-in-law,
  - brother-in-law, or sister-in-law.

The child or person usually **can't** be your qualifying relative if:

- They are married and file joint taxes with their spouse.
- They earn more than $5,200 during 2025. **But**, if the person is your child and either under age 19 or a student under 24, they can still be your dependent and earn more than that.
- You provided less than half of their support during the year (the support test).

These rules for who is a qualifying child and who is a qualifying relative are for federal taxes. Minnesota uses rules like these for state income and property taxes. Ask the person who does your taxes for help in figuring out who in your family is a qualifying child and/or a qualifying relative.

Meeting the Support Test

IRS Publication 501 has worksheets to help figure out if the child or person (for a qualifying child) or you (for a qualifying relative) meet the support test. You can call the IRS at 1-800-TAX-1040 or go to their website at www.irs.gov to get this worksheet. You can find the form at https://www.irs.gov/pub/irs-pdf/p501.pdf.

Foster parents who claim a "charitable deduction" for certain costs can't use those same costs to meet the support test.

Child Tax Credit

If you meet the rules to claim the child as a dependent, the child is under age 17, and you earned at least $2,500 in income, you may be able to get the **Child Tax Credit**, which is worth up to $2,200 per child. Even if you didn't owe that much in taxes, you can get up to $1,700 of that $2,200 as a tax refund for every eligible child. If you do not qualify for the Child Tax Credit, you may qualify for the **Credit for Other Dependents**, which is worth $500 per dependent.

Can I claim the child as a qualifying child for the Earned Income Tax Credit (EITC) and the Minnesota Child and Working Family Tax Credit (CWFC)?

Yes, if that child meets the definition of "qualifying child" talked about earlier in this fact sheet. A "qualifying relative" **cannot** be claimed for the EITC or CWFC.

Do daycare expenses count as a deduction?

You may be able to get the Federal Child and Dependent Care Credit or the Minnesota Child and Dependent Care Credit if the child

- qualifies as your dependent,
- was under age 13 during the tax year, **AND**
- was cared for by someone else (that you paid) while you worked or looked for work.

If the child was age 13 or over, disabled and can't take care of themself, you may also be able to get these credits.

Many low-income families who can't claim the federal credit **can** claim the Minnesota credit. The Minnesota credit is also available if you have a newborn child, even if you had no actual dependent care expenses.

What is the Adoption Tax Credit?

The Adoption Tax Credit is a credit for certain costs you had during the adoption of a child. The maximum credit is $17,280 per child. Costs that count for the credit are things like:

- adoption fees
- court costs
- attorney fees
- medical expenses
- travel expenses

The child must be under age 18 or mentally or physically disabled. If you adopt a special needs child, you may be able to get the full credit even if you have not spent that amount. To get the credit, the special needs child must be a U.S. citizen and a state child welfare agency must have decided that the child can't or should not be returned to the parent's home and that adoption assistance is necessary for you to complete the adoption.

Note: Expenses paid to adopt your spouse's child DO NOT qualify.

Beginning in tax year 2025, up to $5,000 of the Adoption Credit can be a refund. The rest can be carried forward as a credit for up to 5 years. It can't be a refund. You lose anything that is left after 5 years.

Can I claim a credit for education expenses?

If you can claim the child as a dependent, and the child is enrolled in a post-secondary institution (like college), you may be able to claim a tax credit or deduction based on tuition paid. To get more information on the federal education tax credits and deduction, see IRS Publication 970. Call 1-800-TAX-1040 or go to www.irs.gov. You can find Publication 970 online at https://www.irs.gov/pub/irs-pdf/p970.pdf.

If the child is a qualifying child for the EITC, and is in Kindergarten through 12th grade, you may be able to get a Minnesota tax credit or a subtraction for education expenses. You can get the **credit** even if you don't have earned income. You can get all or part of the **credit** and up to 75% of eligible costs back if your adjusted gross income is below $81,820 with 1 or 2 qualifying children.

If you have more qualifying children, the maximum adjusted gross income allowance goes up by $3,000 per child. You can take the **subtraction** no matter what your income is.

Eligible costs include

- after school academic programs
- music lessons
- academic summer camps
- computer hardware or software ($200 maximum)
- paper, pens, pencils etc.
- private school tuition (this can only be a subtraction not a credit).

Remember! you must have documentation like receipts or invoices to prove you paid qualifying expenses.

See our fact sheet *Back to School Tax Reminder: Minnesota Education Credit and Subtraction*.

If You Have Not Filed, File Now!

The EITC and other income tax credits can be claimed up to 3 years late. If you did not file a tax return for some or all of the last 3 years, you can file now and claim the EITC and other credits. The forms and credit amounts change each year. Be sure to use the form for the year that you are filing for! For forms call the IRS at the number below or get them off their website, www.irs.gov. If you did file your return but did not claim credits you now think you could have used, you can file an amended Form 1040X (federal) or M1X (Minnesota) for any of the past 3 years.

For federal tax questions, call (800) TAX-1040.
For Minnesota tax questions, call (651) 296-3781.

Free Tax Help

Free tax preparation is available for low income, disabled persons, and senior citizens. To find help near you, call (651) 297-3724 or United Way statewide at 211 or (800) 543-7709 from a cell phone. You can also find free help near you by visiting www.irs.gov/vita.

This fact sheet applies only to the tax year 2025
Income tax returns must be filed by April 15, 2026