

Adoption Benefits

Amounts paid or expenses incurred by an employer for qualified adoption expenses under an adoption assistance program are not subject to federal income tax withholding and are not reportable in box 1. However, these amounts (including adoption benefits paid from a section 125 (cafeteria) plan, but not including adoption benefits forfeited from a cafeteria plan) are subject to social security, and Medicare and must be reported in boxes 3 and 5. Also, the total amount must be reported in box 12 with code T.

An adoption assistance program is a separate written plan of an employer that meets all of the following requirements.

1. It benefits employees who qualify under rules set up by you, which don't favor highly compensated employees or their dependents. To determine whether your plan meets this test, don't consider employees excluded from your plan who are covered by a collective bargaining agreement, if there is evidence that adoption assistance was a subject of good-faith bargaining.
2. It doesn't pay more than 5% of its payments during the year for shareholders or owners (or their spouses or dependents). A shareholder or owner is someone who owns (on any day of the year) more than 5% of the stock or of the capital or profits interest of your business.
3. You give reasonable notice of the plan to eligible employees.
4. Employees provide reasonable substantiation that payments or reimbursements are for qualifying expenses.

For this exclusion, a highly compensated employee for 2021 is an employee who meets either of the following tests.

1. The employee was a 5% owner at any time during the year or the preceding year.
 2. The employee received more than \$130,000 in pay for the preceding year.
- You can choose to ignore test (2) if the employee wasn't also in the top 20% of employees when ranked by pay for the preceding year.

You must exclude all payments or reimbursements you make under an adoption assistance program for an employee's qualified adoption expenses from the employee's wages subject to federal income tax withholding. However, you can't exclude these payments from wages subject to social security, and Medicare taxes.

You must report all qualifying adoption expenses you paid or reimbursed under your adoption assistance program for each employee for the year in box 12 of the employee's Form W-2. Report all amounts including those in excess of the \$14,440 exclusion for 2021. Use code "T" to identify this amount.

Advise your employees to see the Instructions for Form 8839, Qualified Adoption Expenses.

If the district has an eligible adoption benefits that need to be reported in box 12 code T, please inform Payroll Services no later than **December 1st 2021** to ensure proper reporting on the Form W2.

Helpful Links:

[Notice 97-9](#)
[IRS Publication 15-B](#)