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## **Internal Revenue Code Section 137**

Adoption assistance programs.

(a) Exclusion.

(1) In general.

Gross income of an employee does not include amounts paid or expenses incurred by the employer for qualified adoption expenses in connection with the adoption of a child by an employee if such amounts are furnished pursuant to an adoption assistance program.

(2) \$10,000 exclusion for adoption of child with special needs regardless of expenses.

In the case of an adoption of a child with special needs which becomes final during a taxable year, the qualified adoption expenses with respect to such adoption for such year shall be increased by an amount equal to the excess (if any) of \$10,000 over the actual aggregate qualified adoption expenses with respect to such adoption during such taxable year and all prior taxable years.

(b) Limitations.

(1) Dollar limitation.

The aggregate of the amounts paid or expenses incurred which may be taken into account under subsection (a) for all taxable years with respect to the adoption of a child by the taxpayer shall not exceed \$10,000.

(2) Income limitation.

The amount excludable from gross income under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so excludable (determined without regard to this paragraph but with regard to paragraph (1) ) as-

(1) ) as-

(A) the amount (if any) by which the taxpayer's adjusted gross income exceeds \$150,000, bears to

(B) \$40,000.

(3) Determination of adjusted gross income.

For purposes of paragraph (2) , adjusted gross income shall be determined-

(A) without regard to this section and sections 221 , 222 , 911 , 931 , and 933 , and

(B) after the application of sections 86 , 135 , 219 , and 469 .

(c) Adoption assistance program.

For purposes of this section, an adoption assistance program is a separate written plan of an employer for the exclusive benefit of such employer's employees-

- (1) under which the employer provides such employees with adoption assistance, and
- (2) which meets requirements similar to the requirements of paragraphs (2) , (3) , (5) , and (6) of section 127(b) .

An adoption reimbursement program operated under section 1052 of title 10, United States Code (relating to armed forces) or section 514 of title 14, United States Code (relating to members of the Coast Guard) shall be treated as an adoption assistance program for purposes of this section .

(d) Qualified adoption expenses.

For purposes of this section, the term "qualified adoption expenses" has the meaning given such term by section 23(d) (determined without regard to reimbursements under this section ) .

(e) Certain rules to apply.

Rules similar to the rules of subsections (e) , (f) , and (g) of section 23 shall apply for purposes of this section .

(f) Adjustments for inflation.

In the case of a taxable year beginning after December 31, 2002, each of the dollar amounts in subsection (a)(2) and paragraphs (1) and (2)(A) of subsection (b) shall be increased by an amount equal to-

(1) such dollar amount, multiplied by

(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "calendar year 2001" for "calendar year 2016" in subparagraph (A)(ii) thereof.

If any amount as increased under the preceding sentence is not a multiple of \$10, such amount shall be rounded to the nearest multiple of \$10.