American Rescue Plan Act of 2021: Enhanced Child Tax Credit
Child Tax Credit

• What is the Child Tax Credit?
  • Tax benefit granted to taxpayers for each qualifying child dependent

• How do tax credits work?
  • Reduce actual tax liabilities
  • Distinct from tax deductions which reduce taxable income

• Most tax credits operate only to reduce the tax liability to zero

• Refundable credits – “super credits” - pay out after tax liabilities are reduced to zero (examples include Child Tax Credit, Earned Income Tax Credit, Premium Tax Credit, Recovery Rebate Credit)
Child Tax Credit for 2020 Tax Returns

• Child Tax Credit is worth $2,000 per child under 17
• Child must:
  • Have an SSN
  • Be related to you
  • Qualify and claimed as dependent on return
• Taxpayers with ITINs can qualify if child has SSN
• Up to $1400 is refundable for lower income taxpayers
• Must have $2500 earned income to get credit
• Phase out if adjusted gross income above:
  • $200,000 for single, head-of-household or
  • $400,000 on joint returns
• Credit is reduced by $50 for each $1,000 of income over the threshold amount
Child Tax Credit for 2021

- American Rescue Plan Act expands the Child Tax Credit for tax year 2021
- Increased to $3,600 per child under the age of 6
- $3,000 per child between 6 and 17 years of age
- 17-year-olds qualify (previously under 17)
- Fully refundable (previously just $1400)
- $2500 earnings floor removed
- Half of the Child Tax Credit to be sent in advance in periodic payments between July 2021 and December 2021
- Not subject to offsets for federal/state debts, nor child support
Phase Out for Enhanced Child Tax Credit

• Not all families with children will get the increased Child Tax Credit

• Enhanced Child Tax Credit begins to phase out at:
  • $75,000 for single
  • $112,500 for head-of-household
  • $150,000 for joint

• The phase out will reduce the credit by $50 for each $1,000 of adjusted gross income over the applicable threshold amount, limited to the enhanced credit amount and not the regular $2,000 credit amount.

• Families who are not eligible for the enhanced/higher Child Tax Credit will still be able to claim the regular Child Tax Credit of $2,000 per child.
Periodic Payments 2021

• American Rescue Plan Act calls for the IRS to send out advance Child Tax Credit payments periodically from July 2021 through December 2021

• Likely, the IRS will send out six monthly advance payments starting in July and ending in December

• Half of the Child Tax Credit amount
  • $300 per month per child under the age of 6
  • $250 per month for children 6-17

• To determine eligibility for advance payments, the IRS will first look to 2020 return. If 2020 return not filed, then 2019.

• If made permanent going forward, these payments have the potential to reduce child poverty in half.
Overpayments

• With the advance payments of the Child Tax Credit, there will likely be instances in which families receive more in advance than they are entitled.
• There is a Safe-Harbor for lower and moderate income families.
• Families will not have to repay credit overpayment if 2021 adjusted gross income below:
  • $40,000 single
  • $50,000 head of household
  • $60,000 joint
• Families will have to repay entire overpayments if 2021 adjusted gross income at least:
  • $80,000 single
  • $100,000 head of household
  • $120,000 joint
• Families with adjusted gross income in between those amounts will need to repay a portion of any overpayment of the Child Tax Credit.
Online Portal

• The American Rescue Plan Act also directs the IRS to develop an online information portal where individuals can update their income, marital status and number of qualifying children for this credit.

• This portal will help non-filers, newly unemployed and individuals whose children are born this year gain access to the advance credit payments.

• If your circumstances changed and you believe those changes could effect the amount of your child tax credit for 2021, be sure to go onto the portal once it is running and update your information.
Questions?

Feel free to email (taxclinic@ilsi.net) or call (812) 339-7668