

## **CORONAVIRUS AND YOUR MONEY**

# **Child Tax Credit 2021: Who Gets \$3,600? Will I Get Monthly Payments? And Other FAQs**

People have lots of questions about the new \$3,000 or \$3,600 child tax credit and the advance payments that the IRS will send to most families in 2021. Here are answers to some of those questions.



*Getty Images*

The child tax credit is bigger and better than ever for 2021, which should make things a little easier for families taking a financial hit during the COVID-19 pandemic. Thanks to the recently enacted \$1.9 trillion American Rescue Plan Act of 2021 ("American Rescue Plan"), the credit amount is significantly increased for one year, and the IRS is required to make advance payments to qualifying families in the second half of 2021.

But the changes are complicated and won't help everyone. For instance, there are now two ways in which the credit can be reduced for upper-income families. That means some parents won't qualify for a larger credit and, as before, some won't receive any credit at all. The IRS also has some wiggle room when it comes to the advance payments, so the size and frequency of the payments aren't set in stone yet. More children will qualify for the credit in 2021, too. And, if you have more than one kid, the credit amount could differ from one child to another.

### **2020 Child Tax Credit**

**Question:** What were the rules for the 2020 child tax credit?

**Answer:** For 2020 tax returns, which are due by April 15 of this year, the child tax credit is worth \$2,000 per kid under the age of 17 claimed as a dependent on your return. The child must be related to you and generally live with you for at least six months during the

year. He or she must also be a citizen, national or resident alien of the United States and have a Social Security number. You must put the child's name, date of birth and SSN on the return, too.

The credit begins to phase out if your adjusted gross income (AGI) is above \$400,000 on a joint return, or over \$200,000 on a single or head-of-household return. Once you reach the \$400,000 or \$200,000 AGI threshold, the credit amount is reduced by \$50 for each \$1,000 (or fraction thereof) of AGI over the applicable threshold amount.

Up to \$1,400 of the child credit is refundable for some lower-income individuals with children. However, you must also have at least \$2,500 of earned income to get a refund.

### **Changes Made for 2021**

**Question:** What changes did Congress make to the child tax credit?

**Answer:** The American Rescue Plan temporarily expands the child tax credit for 2021. First, it allows 17-year-old children to qualify for the credit. Second, it increases the credit to \$3,000 per child (\$3,600 per child under age 6) for many families. Third, it makes the credit fully refundable and removes the \$2,500 earnings floor. Fourth, it requires half of the credit to be paid in advance by having the IRS send periodic payments to families from July 2021 to December 2021.

Note that the other general rules for child-tax-credit eligibility continue to apply. For instance, the child still must be a U.S. citizen, national or resident alien and have a Social Security number. You also must claim him or her as a dependent on your 2021 tax return, and the child must be related to you and generally live with you for at least six months during the year. And you still have to put the child's name, date of birth and SSN on the return.

### **Qualifying for the Higher Credit Amount**

**Question:** Do all families qualify for the higher per-child tax credit of \$3,000 or \$3,600?

**Answer:** No, not all families with children will get the higher child tax credit, but most will. The enhanced tax break begins to phase out at AGIs of \$75,000 on single returns, \$112,500 on head-of-household returns and \$150,000 on joint returns. The amount of the credit is reduced by \$50 for each \$1,000 (or fraction thereof) of AGI over the applicable threshold amount. Note that this phaseout is limited to the \$1,000 or \$1,600 temporary increased credit for 2021 and not to the \$2,000 credit.

For example, if a married couple has one child who is four years old, files a joint return, and has an AGI of \$160,000 for 2021, they won't get the full \$3,600 enhanced credit. Instead, since their AGI is \$10,000 above the phase-out threshold for joint filers (\$150,000), their credit is reduced by \$500 ( $\$50 \times 10$ ) – resulting in a final 2021 credit of \$3,100.

### **Additional Phase-Out**

**Question:** If my 2021 income is higher than the thresholds for taking the \$3,000 or \$3,600 per-child tax credit, can I still claim the \$2,000 credit when I file my return?

**Answer:** It depends. Families who aren't eligible for the \$3,000 or \$3,600 credit in 2021, but who have AGIs at or below \$400,000 on joint returns or \$200,000 on other returns, could claim the regular credit of \$2,000 per child, less the amount of any advance payments they get. Families with AGIs above the \$400,000/\$200,000 thresholds will see the \$2,000 per-child credit reduced by \$50 for each \$1,000 (or fraction thereof) of AGI over those thresholds.

For example, if a married couple has one child who is seven years old, files a joint return, and has an AGI of \$415,000 for 2021, they won't get the full \$3,000 enhanced credit. First, because of their high income, they don't qualify for the extra \$1,000 (see *question above*), so their credit is reduced to the regular amount of \$2,000. Then, since their AGI is \$15,000 above the second phase-out threshold for joint filers (\$400,000), their credit is reduced again by \$750 ( $\$50 \times 15$ ) – resulting in a final 2021 credit of \$1,250.

### **17-Year-Old Children**

**Question:** Can I take the higher child tax credit for my daughter who turns 17 in 2021?

**Answer:** Yes. If you meet all the other rules for taking the child tax credit, you can claim the credit for your daughter when you file your 2021 Form 1040 next year. The American Rescue Plan broadened the age for children qualifying for the credit for 2021 from 16 and under to 17 and under. So, 17-year-olds qualify as eligible children for the child credit for 2021.

### **Fully Refundable**

**Question:** What does it mean that the child tax credit is fully refundable for 2021?

**Answer:** The American Rescue Plan makes the child credit fully refundable for people who live in the United States for more than one half of the year. Before this change, certain low-income people could only get up to \$1,400 per child as a refund, instead of the full \$2,000 child credit, if their child credit was more than the taxes they otherwise owed. Under the new rules for 2021, people who qualify for a child tax credit can receive the full credit as a refund, even if they have no tax liability.

Parents don't need to be employed or otherwise have earnings in order to claim the child credit for 2021. Prior rules limited the credit to families having at least \$2,500 of earned income. For 2021, families with no earned income can take the child credit if they meet all the other rules.

## **Information from Tax Returns**

**Question:** Who gets the advance payments?

**Answer:** The American Rescue Plan requires the IRS to pay half of the tax credit in advance. If all goes as planned, the IRS will send out a payment (mainly in the form of direct deposits) periodically from July through December to eligible families. The IRS will base eligibility for the credit and advance payments, and calculate the amount of the advance payment, based on previously filed tax returns. It will first look to your 2020 return, and if a 2020 return has not yet been filed, the IRS will look to your 2019 return.

## **Timing and Frequency of Advance Payments**

**Question:** When will the IRS start making payments, and how many payments will I get?

**Answer:** The plan all along was for the IRS to make monthly credit payments to eligible families from July to December 2021. That doesn't give the tax agency much time to set up its computer systems to handle such a massive program, but the IRS says it's on schedule to meet that goal. If it does, then most families will receive six payments in 2021, one each month from July through December. The law does give the IRS some wiggle room to begin the payments later in 2021 and to make them less often than monthly if needed, so the plan for monthly payments starting in July could still change.

## **Amount of Monthly Payments**

**Question:** How much will a family get each month?

**Answer:** The advance payments will account for half of a family's 2021 child tax credit. The amount a family receives each month will vary based on the number of children in the family, the ages of the kids and the amount of the family's adjusted gross income. For example, for families who qualify for the full \$3,000 (\$3,600 for children under age 6) credit per child, if monthly payments were made, this will result in monthly payments of \$250 per child (\$300 per child under age 6) for six months. Families with higher incomes who qualify for the \$2,000 credit will get monthly payments of \$167 per child for six months.

Take a family of five with three children ages 12, 7 and 5. Assuming the family qualifies for the higher child credit and doesn't opt out of the advance payments, they could get \$800 per month from the IRS from July through December, for a total of \$4,800. They would then claim the additional \$4,800 in child tax credits when they file their 2021 federal tax return next year.

If that same family with three children qualifies for the \$2,000 per-child credit and doesn't opt out of the advance payments, they could get \$500 per month from the IRS from July through December, for a total of \$3,000. They would then claim the additional \$3,000 in child tax credits when they file their 2021 Form 1040 next year.

## **Changes to Your Family or Income**

**Question:** What if my family circumstances change during the year and I have more income or less income than shown on the 2019 or 2020 return that I filed with the IRS?

**Answer:** As mentioned above, the IRS will generally base eligibility for the credit and advance payments, and calculate the amount of the advance payment, based on previously filed tax returns. It will first look at your 2020 return. If you haven't filed a 2020 return, the IRS will look at your 2019 return. The IRS will assume that the number of children and the income that you reported on your 2020 (or 2019) return are the same for 2021. It will account for the passage of time only for determining the age of the children.

The American Rescue Plan requires the IRS to develop an online portal so that you can update your income, marital status and the number of qualifying children. So, if your circumstances changed in 2021, and you believe those changes could affect the amount of your child credit for 2021, go onto that portal once it is up and running and update it for the correct information. The IRS fully expects to launch that portal by July 1 as required under the law.

The IRS also plans to send letters detailing the new child tax credit program to potentially eligible families, based on 2019 or 2020 returns. It's not certain yet when the IRS will mail these letters, but is expected to be before the agency launches the online portal.

## **New Babies in 2021**

**Question:** What if I had a baby this year? Will I get advance payments?

**Answer:** As discussed, the American Rescue Plan calls for the IRS to develop an online portal, so that you can update certain information, including the number of qualifying children. It is hoped that this web tool will be up and running by July. So, if you had a baby in 2021, you could update the portal so the IRS will know to begin sending you payments. If you decide not to do this, you're not out of luck. You won't get the payments, but you'll be able to account for your child when you file your 2021 return next year. Provided you are otherwise eligible to take the child credit, you can take a child tax credit of up to \$3,600 for your baby on your 2021 Form 1040.

## **Opting Out of Advance Payments**

**Question:** I know I will qualify for a child tax credit for 2021, but I don't want to receive advance payments. Is there a way of opting out?

**Answer:** Yes. People who want to opt out of the advance payments and instead take the full child credit on their 2021 return can do so through the online tool that the IRS will develop.

### **Social Security Numbers for Children**

**Question:** My child doesn't have a social security number. Can I claim the child credit or get advance payments?

**Answer:** No. The American Rescue Plan didn't eliminate the requirement that only children with Social Security numbers qualify for the child credit. You must put your child's name, date of birth and Social Security number on the Form 1040.

### **Offset for Back Taxes or Child Support Arrears**

**Question:** Will monthly payments be reduced for taxpayers who owe back taxes or child support?

**Answer:** No. The IRS cannot take the payments to offset past-due federal taxes, state income taxes, or other federal or state debts. The same goes for people who are behind on child support payments. However, there are no protections against garnishment by private creditors or debt collectors.

### **Taxation of Advance Payments**

**Question:** Do I have to pay tax on the payments I get?

**Answer:** No. The payments that you receive are advance payments of the 2021 child tax credit, so they are not taxable. On your 2021 Form 1040 that you file next year, you will reconcile the monthly payments that you receive from the IRS in 2021 with the child tax credit that you are actually entitled to. The law requires the IRS to mail out a notice by January 31, 2022, showing the total amount of payments made to you during 2021.

### **Paying Back Overpayments**

**Question:** Do overpayments of the child credit need to be paid back?

**Answer:** It depends. With advance payments of the child tax credit, there will sure to be instances in which families receive more in advance child tax credit payments from the IRS than they are otherwise entitled to. And the American Rescue Plan contemplates this by providing a "safe harbor" for lower- and moderate-income taxpayers.

Families with 2021 adjusted gross income at or below \$40,000 on a single return, \$50,000 on a head-of-household return and \$60,000 on a joint return won't have to repay any credit overpayments that they get. On the other hand, families with 2021 adjusted gross incomes of at least \$80,000 on a single return, \$100,000 on a

head-of-household return and \$120,000 on a joint return will need to repay the entire amount of any overpayment when they file their 2021 tax return next year. And families with 2021 adjusted gross incomes between these thresholds will need to repay a portion of the overpayment.

### **IRS's Ability to Make Advance Payments**

**Question:** Is the IRS up for the challenge?

**Answer:** It should be, but there are concerns. Many tax experts and some lawmakers question whether the IRS, with its out-of-date computer systems, shrunken work force and its myriad of other duties, will be fully able to deliver periodic child credit payments.

Setting up a new program to deliver regular payments to taxpayers who must meet complex eligibility requirements to qualify for the child credit will be a challenge for an agency that is not used to sending out periodic payments. The IRS will need more funding for such a big undertaking. The American Rescue Plan gives \$400 million to the IRS to take on the additional work, but some experts question whether this is enough. The IRS says that to facilitate advanced payments of the credit, it will have to build a system to compute and recompute payments as taxpayers provide new information. Such a system must also be able to issue and track payments, as well as reconcile all payments sent out to each taxpayer during the year with the taxpayer's credit taken on the tax return. The agency will also need to develop a program to flag returns that don't accurately include all advance payments received during the year.

Another issue that the IRS will have to deal with is how to minimize the potential for fraud when it comes to refundable child tax credits. For example, the IRS estimates that in 2019 it improperly paid \$7.2 billion in such refundable credits.

Nevertheless, despite all these challenges, IRS Commissioner Charles Rettig told Congress that the tax agency can handle the job.

### **Post-2021 Child Tax Credit**

**Question:** Will the higher child tax credit and advance payments eventually be made permanent?

**Answer:** Yes, if Democratic lawmakers get their way. Remember that the child tax credit expansions apply only for 2021. Some Congressional Democrats would like to see the enhancements made permanent, touting the impact that a higher and fully refundable child tax credit would have on reducing child poverty in the United States. For example, Congressman Richard Neal (D-MA), the Democratic Chairman of the House Ways & Means Committee, said the 2021 child tax credit enhancements are unlikely to go away, and he has unveiled proposed legislation to permanently extend those expansions. President Biden has also jumped on the child tax credit extension bandwagon. His proposed American Families Plan would extend the expanded credit through 2025,

though he would make full refundability, and it is assumed advance payments, permanent.

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