



Are You Aware of the Child Tax Credit Changes?

New changes thanks to the American Rescue Plan Act – but just for 2021

The Child Tax Credit was introduced through the Taxpayer Relief Act of 1997 and it was a \$500-per-child nonrefundable credit to provide tax relief to families. And over the past 20+ years, there have been a dizzying number of modifications that have increased the value of the tax credit as well as expanded its availability.

Well in 2021 – and only for tax year 2021 – thanks to the American Rescue Plan Act of 2021, there have been additional changes that will help families receive advance payments starting this summer. Here is what you should know (taken directly from the IRS).

The Child Tax Credit for Tax Year 2021 Only

“The expanded credit means:

- The credit amounts will increase for many taxpayers.
- The credit for qualifying children is fully refundable, which means that taxpayers can benefit from the credit even if they don't have earned income or don't owe any income taxes.
- The credit will include children who turn age 17 in 2021.
- Taxpayers may receive part of their credit in 2021 before filing their 2021 tax return.

For tax year 2021, families claiming the CTC will receive up to \$3,000 per qualifying child between the ages of 6 and 17 at the end of 2021. They will receive \$3,600 per qualifying child under age 6 at the end of 2021. Under the prior law, the amount of the CTC was up to \$2,000 per qualifying child under the age of 17 at the end of the year.

The increased amounts are reduced (phased out), for incomes over \$150,000 for married taxpayers filing a joint return and qualifying widows or widowers, \$112,500 for heads of household, and \$75,000 for all other taxpayers.

Advance payments of the 2021 Child Tax Credit will be made regularly from July through December to eligible taxpayers who have a main home in the United States for more than half the year. The total of the advance payments will be up to 50 percent of the Child Tax Credit. Advance payments will be estimated from information included in eligible taxpayers' 2020 tax returns (or their 2019 returns if the 2020 returns are not filed and processed yet).

The IRS urges people with children to file their 2020 tax returns as soon as possible to make sure they're eligible for the appropriate amount of the CTC as well as any other tax credits they're eligible for, including the Earned Income Tax Credit (EITC). Filing electronically with direct deposit also can speed refunds and future advance CTC payments.

Eligible taxpayers do not need to take any action now other than to file their 2020 tax return if they have not done so.

Eligible taxpayers who do not want to receive advance payment of the 2021 Child Tax Credit will have the opportunity to decline receiving advance payments. Taxpayers will also have the opportunity to update information about changes in their income, filing status or the number of qualifying children. More details on how to take these steps will be announced soon.

The IRS will provide more information about advance payments soon.”

What Should You Do?

Taxes are complicated enough, so make sure you consult your tax professional for guidance, especially with respect to whether or not you qualify.

And make sure you talk to your financial advisor in order to confirm that the tax decisions you make are consistent with your overall financial plan.

Source: [irs.gov](https://www.irs.gov)