



Advance Child Tax Credit Payments



The American Rescue Plan, signed into law in March of 2021, expanded the Child Tax Credit and provided a mechanism for families to receive advance payments for the credit. This document provides an overview of the Child Tax Credit and the advance payments that will begin this summer.

What is the Child Tax Credit?

The Child Tax Credit is a tax credit provided to parents with one or more qualifying children.

Prior to the American Rescue Plan, the Child Tax Credit was \$2,000 per qualifying child. For the 2021 tax year, the amount of the credit is \$3,000 for each qualifying child between the age of 6 and 17 years old and \$3,600 for each qualifying child younger than 6 years old.

The Child Tax Credit is a tax credit that reduces a taxpayer's tax liability dollar for dollar. The tax credit is also fully refundable meaning that if a taxpayer's tax liability is reduced to zero, the taxpayer will receive a refund for the remainder of the credit.

Advance Payments

As part of the American Rescue Plan Act, the IRS will pay half of the estimated Child Tax Credit in six equal payments beginning on July 15, 2021. Thus, taxpayers will receive \$300 per month for each qualifying child younger than six and \$250 per month for each qualifying child age six to seventeen. The balance of the credit will be taken on the taxpayer's 2021 tax return.



What are the income qualifications?

In order to receive the full tax credit for 2021, a taxpayer's adjusted gross income must be less than \$150,000 for Married filing jointly, \$112,000 for Head of Household, or \$75,000 for individuals.

If a taxpayer's AGI is greater than these limits, then the tax credit is reduced by about \$50 for every \$1,000 of excess income until the amount of the credit drops to \$2,000. Then, the remaining \$2,000 gets phased out at \$200,000 of AGI for individuals and \$400,000 for married filing jointly under the same calculation - a \$50 reduction for each \$1,000 in excess AGI.

Additionally, to qualify for the advance Child Tax Credit Payments, the taxpayer, and spouse if filing jointly, must have:

- Filed a 2019 or 2020 tax return and claimed the Child Tax Credit on the return; or Given the IRS their information in 2020 to receive the Economic Impact Payment.
- A main home in the United States for more than half the year; or files a joint return with a spouse who has a main home in the United States for more than half the year.
- A qualifying child who is under age 18 at the end of 2021 and who has a valid Social Security number.
- Made less than the income limits discussed earlier.

What do I need to do to receive the Child Tax Credit Payments?

If you have filed your 2019 or 2020 tax return, you do not need to take any additional action to get advance payments. The IRS will use the information provided earlier to determine if you qualify and automatically enroll you for advance payments.



What if I don't want to receive the Child Tax Credit Payments?

You may prefer not to receive monthly advance Child Tax Credit payments because you would rather claim the full credit when you file your 2021 tax return, or you know you will not be eligible for the Child Tax Credit for your 2021 tax year. You will be able to unenroll through the Child Tax Credit Update Portal before the first advance Child Tax Credit payment is made. To unenroll visit:

<https://www.irs.gov/credits-deductions/child-tax-credit-update-portal>

What if I receive more in payments than the 2021 credit amount?

The IRS will calculate the amount of the advance payments based on your 2019 or 2020 tax return, whichever is most recent. If you receive advance Child Tax Payments in 2021, but then don't qualify for the amount of payments received when filing your 2021 return, you will owe the difference back to the IRS.



Final Thoughts

The purpose of this document is to provide a brief overview of the Child Tax Credit and is not a substitute for talking with one of our experts. If you have any questions or need help filing your tax return, please contact our office.



About Pugh CPAs

We got our start in Knoxville, Tennessee in 1969 and have grown into a regional firm with global connections. We've been in business a LONG time and that means we've worked with a diverse group of industries and clients. Of course, we do tax planning, compliance, auditing, and accounting but our passion is collaborating with our clients to ensure that your business and financial goals are met. It's critical for your business advisors to understand how your business operates within your industry—we get that! Our longevity is connected to the relationships we build with our clients and that's how we build trust. You can be confident that Pugh CPAs has the knowledge, skills and abilities to help you achieve your goals. Brilliant people with servant hearts work here.



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