ARPA's temporary expansion of child tax credit for tax year 2021

I am writing to let you know about the significant enhancements made to the child tax credit (CTC) by the American Rescue Plan Act of 2021 (ARPA). These enhancements temporarily expand the eligibility for, and the amount of, the child tax credit (CTC) for tax years beginning in 2021 and require IRS to make monthly advance payments of the credit to taxpayers in July through December of 2021.

Under pre-ARPA law, the CTC was $2,000 per "qualifying child." A qualifying child was defined as an under-age-17 child whom you could claim as a dependent (i.e., a child related to you who, generally, lived with you for at least six months during the year), and who was a U.S. citizen or national, or a U.S. resident.

The $2,000 CTC was phased out (reduced) if your modified adjusted gross income (AGI) was over $200,000, or over $400,000 if you filed jointly, at a rate of $50 per $1,000 (or part of a $1,000) by which modified AGI exceeded the threshold amount.

The CTC was also partially refundable-to the extent of 15% of your earned income in excess of $2,500. An alternative formula for determining refundability applied for taxpayers with three or more qualifying children. But, the maximum refundable credit for 2021 was $1,400 per qualifying child.

A $500 nonrefundable credit (per dependent) (so called "family credit") is also allowed for each qualified dependent who isn't a qualifying child under the CTC definition.

CTC temporarily expanded for 2021. For 2021, ARPA expands the CTC as to eligibility and amount, as follows:

(1) The definition of a qualifying child is broadened to include 17 year-olds (i.e., children who haven't turned 18 by the end of 2021).

(2) The CTC is increased to $3,000 per child ($3,600 for children under age 6 as of the close of the year). But, the increased credit amounts are subject to their own phase-out rule.

So, for 2021, the CTC is subject to two sets of phase-out rules:

- the increased CTC amount (the $1,000 or $1,600 amount) is phased out for taxpayers with modified AGI of over $75,000 for singles, $112,500 for heads-of-households, and $150,000 for joint filers and surviving spouses; and
- after applying the above phase-out rule to the increased amount, your remaining $2,000 of CTC is subject to the existing phase-out rules (i.e., the $2,000 of credit is phased out for taxpayers with modified AGI of over $200,000/$400,000 for joint filers).

If you aren't eligible to claim an increased CTC in 2021, you can still claim the regular $2,000 CTC, subject to the existing phase-out rules.

(3) The CTC is fully refundable for 2021 for a taxpayer (either spouse for a joint return) with a principal place of abode in the U.S. for more than one-half of the tax year, or for a taxpayer who is a bona fide resident of Puerto Rico for the tax year.

A member of the U.S. Armed Forces stationed outside the U.S. while serving on extended active duty is treated as having a principal place of abode in the U.S.

The phase-out rules apply regardless of refundability, and the $500 family credit for dependents other than qualifying children remains nonrefundable.

Advance payments of the 2021 CTC. IRS must establish a program to make monthly (periodic) advance payments (generally by direct deposits) which in total equal 50% of IRS's estimate of the eligible taxpayer's 2021 CTCs. These payments will be made in July 2021 through December 2021. To determine your advance CTC payments, IRS will look at your 2020 return, or, if it's not yet filed, your 2019 return.

If you receive advance CTC payments that are in excess of the CTC actually allowable to you for 2021, you'll have to repay those excess amounts (by increasing the tax liability reported on your 2021 returns). But, for certain low- and moderate-income taxpayers, the excess may be reduced by a safe harbor amount, limiting the amount by which they'll have to increase tax liability, and allowing them to keep a portion of the excess amount.

Application of the CTC in U.S. territories. For 2021, the CTC is made fully refundable for taxpayers who are Puerto Rico bona fide residents for the tax year, claimed by filing a tax return with the IRS. But, IRS won't make advance payments to residents of Puerto Rico.

Other special rules apply for residents of Guam, the Commonwealth of the Northern Mariana Islands, and the

U.S. Virgin Islands (the so-called "Mirror Code territories"), and American Samoa.

Social security number still required to claim CTCs for 2021. Not changing for 2021: to claim the CTC, you must include each qualifying child's name and social security number (SSN) on your tax return, and those SSNs must have been issued before the return's filing due date. If a qualifying child doesn't have an SSN, you will be able to claim the $500 family credit for that child-using an individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN).

The changes made by the Act should make the CTC more valuable and more widely available to many taxpayers in 2021. If you have children under 18, or other dependents, and would like to determine if these changes can benefit you in 2021, please give me a call.