



American Rescue Plan Act Changes to 2021 Child Tax Credits

The American Rescue Plan includes a significant overhaul of the child tax credit, but only for the 2021 tax year. Under current law, the amount of the child tax credit is equal to \$2,000 per child, but only \$1,000 of that amount is refundable (meaning that the taxpayer receives the credit even if there is an insufficient amount of taxes to be credited against). The American Rescue Plan increases the amount to \$3,000 per child (or \$3,600 for a child under the age of six) and makes the credit amount fully refundable. The American Rescue Plan also increases the maximum age of qualifying children to include 17-year old children.

The excess of the amount of the credit over the present-law \$2,000 amount is phased out by \$50 for every \$1,000 of modified adjusted gross income in excess of the threshold amount (\$150,000 for joint filers, \$112,500 for head of household filers, and \$75,000 for single filers). Once the excess amount is eliminated, the amount of the credit remains at \$2,000 until the present law phaseout thresholds are reached (\$400,000 for joint filers, \$200,000 for all other filers).

The Treasury and IRS are directed by the American Rescue Plan to issue advance payments of half of the credit amount beginning on July 1, 2021. The advance payments are to be issued monthly, if feasible, or as frequently as possible if monthly payments are not feasible. The remaining half of the credit not paid in advance is received when filing 2021 returns, as the full amount is claimed on the return but reduced by the aggregate amount received in advance. **If you receive advance child tax credits in 2021, please maintain documentation of such as we will need this information to report the child tax credit reconciliation on your 2021 Federal tax return.**

In the case of a taxpayer who received advance payments in error (for example, where a 2019 or 2020 return indicated a dependent child who is no longer a dependent in 2021), the American Rescue Plan provides a "hold-harmless" provision, protecting taxpayers from having to pay back overpayments of up to \$2,000 per child. The full \$2,000 amount is ratably reduced for taxpayers with income above a threshold amount (\$40,000 for single filers, \$50,000 for head of household filers, and \$60,000 for joint filers). The \$2,000 is completely eliminated for taxpayers with income double the applicable threshold amounts, and the entirety of the overpayment must be paid back.

Congress has directed the IRS and Treasury to create a website for taxpayers to opt out of receiving advance payments, or to provide information on status changes that would impact the amount of the credit.

If you have any questions or need any assistance whatsoever, please call us at 402-496-9100.

Sincerely,

Frankel Zacharia, LLC