FAQ: How will the expanded Child Tax Credit impact my family?

What does the recent Child Tax Credit expansion do?

The recent Child Tax Credit expansion under President Biden's American Rescue Plan expands and enlarges the Child Tax Credit for most families with kids for tax year 2021. Key changes:

- **Most families will get a bigger credit.**
  - For married couples earning $150,000 or less, or single parents earning $112,500 or less, the credit has been increased from $2,000 per child to $3,000 per child (or $3,600 per child under 6).
  - Married couples earning up to $400,000 and single parents earning up to $200,000 are still eligible for at least $2,000 per child, the same as before.
  - For incomes above those amounts, credits phase out at a rate of 5%, the same as before. For example, a married couple with two kids is eligible for a diminishing credit amount the higher their income, up to an income of $480,000.
- **Kids 17 and under are eligible.** Under prior law, only children 16 and under were eligible. For tax year 2021, 17-year-old kids are eligible as well.
- **Most families will get monthly advance payments of the credit, starting in July.** Under the new plan, families who file taxes (including using the online portal last year to get stimulus checks) will get their payments automatically either via direct deposit or paper check, starting on July 15. The monthly payments are an advance on the Child Tax Credit for tax year 2021, and they're equal to 1/12 of the total credit – so $250/month for a $3,000 credit or $300/month for a $3,600 credit. These monthly payments will go to nearly 90% of families with kids.

  Families who haven't filed their taxes yet should sign up using the new Child Tax Credit online sign-up portal, which can be found at childtaxcredit.gov.
- **These changes are only in effect for tax year 2021 (this year)**, unless Congress passes an extension this year. The larger credit, full refundability, expansion to 17-year-olds, and monthly payments are in effect for tax year 2021. Families will get half of their credit through advance monthly payments this year and the other half when they file their taxes in early 2022. But unless Congress acts, the monthly payments will stop after December 2021, and the credit will go back to $2,000 per child for tax year 2022.

Will I owe more money at tax time or have to pay the CTC back?

What's different from last year's Child Tax Credit is that most families with kids will get more money than before – $3,600 for each child under 6, and $3,000 for older kids, compared to $2,000. And instead of coming in one lump sum at tax time (either as a refund or to lower their tax bill), it will be split evenly between monthly payments during 2021 and a lump-sum payment at tax time next year. So even though families are now getting more overall, some families may notice a difference at tax time.

If a family usually gets a refund, they'll probably still get a refund at tax time, but it may be a little lower – likely $200 to $500 per kid. If a family usually owes money at tax time, they may want to adjust their withholding, or might choose to opt out of monthly payments and get the entire credit as a lump sum at tax time.

Nobody has to pay the Child Tax Credit back, unless they received it erroneously (*e.g.*, the child no longer lives with them or their income increased dramatically since they last filed taxes). There is some repayment protection for low-income households, even if they received the credit erroneously.

More details:

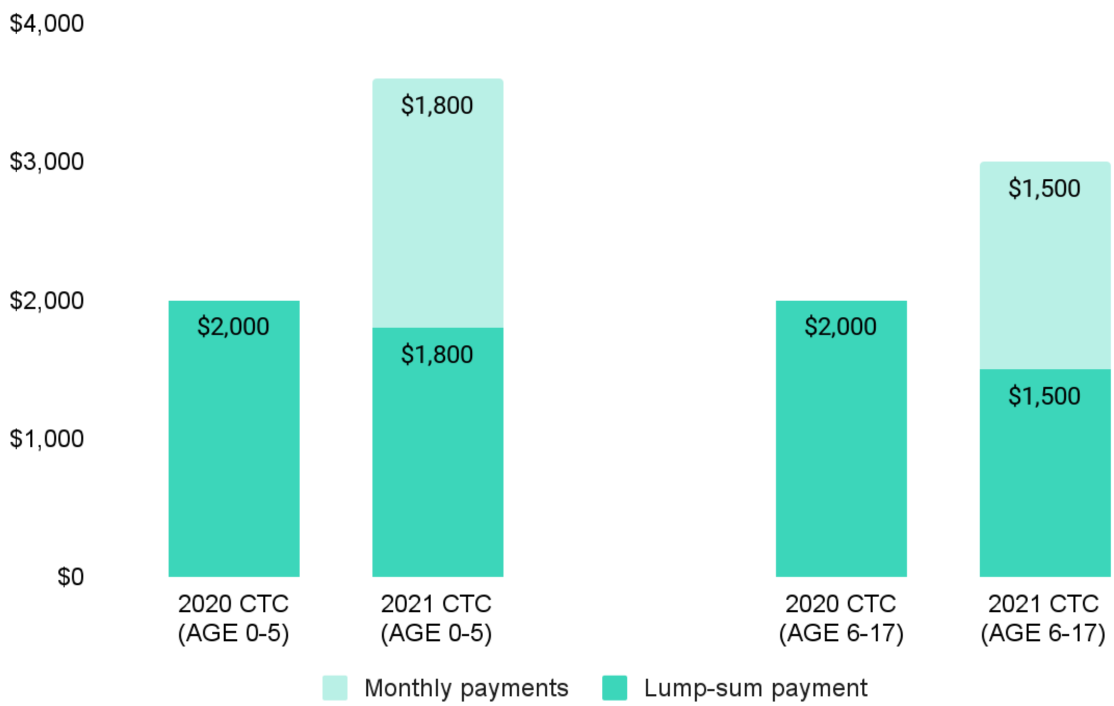
Most families are getting half of their Child Tax Credit *in advance* in monthly payments, so while they'll get more overall, they may see less later *at tax time* as a lump sum. Because the credit has been increased for most families, the difference will be small. For example:

- A married-couple family earning $150,000 or less with a kid 6 or older would normally get a **$2,000** credit, all at tax time in one lump sum. Under the expanded Child Tax Credit, they'll get **$3,000** – with $1,500 paid in advance monthly payments and $1,500 as a lump sum at tax time. That means at tax time, they'll get $500 less than they normally would get – all other things equal – but they will have gotten an additional $1,500 throughout the year.

- A family earning $150,000 or less with a kid 5 or younger would normally get a **$2,000** credit, all at tax time in one lump sum. Under the expanded Child Tax Credit, they'll get **$3,600** – with $1,800 paid in advance monthly payments and $1,800 as a lump sum at tax time. That means at tax time, they'll get $200 less than they normally would get – all other things equal – but they will have gotten an additional $1,800 throughout the year.

- A family earning $210,000 would normally get a **$2,000** credit, all at tax time in one lump sum. Under the expanded Child Tax Credit, they'll get **$2,000** – with $1,000 paid in advance monthly payments and $1,000 as a lump sum at tax time. That means at tax time, they'll get $1,000 less than they normally would get – all other things equal.

- All families have the option to use the IRS portal to opt out of advance monthly payments and instead get their entire credit at tax time, as in the past.



If you received the credit when you weren't eligible, then you may have to pay some or all of the credit back, depending on your income. This can happen if you claimed a child on your 2020 tax return, but you're not able to claim them on your 2021 tax return, for example, when divorced parents trade off years to claim the child. (In this case, a parent should use the IRS Update Portal, which will soon allow parents to add or correct information on their dependents).

What repayment protection is there for low-income taxpayers?

Lower-income households likely won't have to pay any of the credit back, even if it was paid in error. If you were paid the credit and you weren't eligible, then there is some protection against that overpayment; this is called a "safe harbor." Because of the safe harbor, it is unlikely that families under certain income limits (see details of the safe harbor below) will have to pay anything back because they are only receiving half of the credit in advance.

Details of the safe harbor:

- **The Child Tax Credit expansion provides a "safe harbor" of up to $2,000 per child if a caregiver receives a payment in error.** That is, if a parent receives a credit when they weren't eligible, up to $2,000 of that overpayment is forgiven at tax time and will not need to be paid back. In practice, because half of the credit is paid out in advance ($1,500 for kids 6 and over and $1,800 for 5 and under), in most cases, the safe harbor will completely protect eligible low- and moderate-income parents from having to pay anything back.

- To be eligible for the ***full safe harbor*** *amount*, your income must be:
    - Single: $40,000 or less;
    - Head of household (single parents): $50,000 or less; or
    - Married filing jointly: $60,000 or less.
- The safe harbor is reduced proportionally for incomes up to double those amounts, so taxpayers are eligible for *a* ***partial safe harbor amount*** with incomes between:
    - Single: $40,000 and $80,000;
    - Head of household (single parents): $50,000 and $100,000; and
    - Married filing jointly: $60,000 and $120,000.
- Because only half of the credit is being paid in advance, even if a family receives half of the credit in error ($1,500 for older kids or $1,800 for younger kids), the $2,000 safe harbor will protect them from having to pay that amount back at tax time.

How much will I get if my family makes more than $150,000?

Married couples earning more than $150,000 and single parents earning more than $112,500 are still eligible for some credit, depending on their income. Most married couples earning between $150,000 and $400,000 and most single parents earning between $112,500 and $200,000 are still eligible for at least $2,000 per child – the previous version of the credit. At $400,000 (for married filing jointly) and $200,000 (for single parents or "head of household") of income and above, the credit amount begins to phase out at a rate of $50 per $1,000 of income (or 5%). For example, a married couple with two kids is eligible for a diminishing credit amount up to an income of $480,000.

Will college students qualify for the Child Tax Credit?

People 18 and over do not qualify as children for the Child Tax Credit. For dependents 18 and over, such as dependent college students who are claimed by their parents or adult children with disabilities living with their parents, there is a separate credit for other dependents up to $500.

College students who are parents qualify for the Child Tax Credit the same as any other parents.

Are immigrant families included?

Yes, any child with a Social Security Number (SSN) is eligible as long as one parent has either a SSN or Individual Taxpayer Identification Number (ITIN).

Children without an SSN, such as those with an ITIN, are not eligible. This is due to the 2017 Tax Cuts and Jobs Act, championed by then-President Trump, which stripped eligibility from an estimated 1 million immigrant children.

How does the Child Tax Credit help people without children?

Close to 40 million families will receive the Child Tax Credit, and when families do well, the economy does well. Monthly payments have spillover effects that help Main Street businesses, create jobs, and help our communities thrive. The Child Tax Credit will stimulate the economy, with each dollar invested producing up to $1.50 in local economic spending and $8 in return on investment for the entire country – in the form of increased future earnings for beneficiaries (and increased tax revenue) and lower health costs for kids and their parents.

What is the government doing to prevent fraud, checks going to the wrong people, or checks going to people who are deceased?

With nearly 40 million payments going to American families each month, and families experiencing changes all the time, there are bound to be at least a small number of errors – payments to people who are recently deceased or sent to the wrong person or address. Many of these errors occur because the IRS hasn't yet received the data it needs to update its records, which may delay action by the IRS but will eventually provide the agency with what it needs to rectify the problems.

Erroneous payments of tax credits represent a very small portion of the tax gap, and fraud is quite rare. The government has many safeguards in place to deal with these errors when they happen – as it has always done with tax credits, refunds, and most recently with stimulus payments. Ultimately, erroneous payments represent a small sliver of program activity, and payments will get more accurate as the IRS gets more experience with these payments to households, more taxpayers are using the online portals to update their information, and more security infrastructure comes online within the agency.