



Child Tax Credits

How expanded benefits and advance payments will impact 2021 tax returns **BY VALERIE C. MIDDLEBROOKS, CPA**

MANY AMERICANS RECEIVED advanced payments in the second half of 2021 as part of legislation focused on providing additional benefits to taxpayers eligible to claim child tax credits (CTC). The following is an overview of the old rules, the new rules for 2021, and a review of the related tax implications.

The American Rescue Plan Act (ARPA), enacted on March 11, 2021, expanded and enhanced the child tax credit. Before the ARPA, the CTC was limited to \$2,000 per “qualifying child” and the age of such child had to be under 17. The \$2,000 CTC was phased out for taxpayers with modified adjusted gross income (AGI) of over \$400,000 for joint filers, and \$200,000 for all other filers. The CTC was also partially refundable.

Under the ARPA for tax year 2021, the CTC was temporarily modified as follows:

- The definition of qualifying child broadened to include a child who hasn't turned 18 by the end of 2021.

- The CTC increased to \$3,000 per child age six or older and \$3,600 per child under age six at the close of 2021. The increased credit amounts are phased out at modified AGI of over \$75,000 for single filers, \$112,500 for heads-of-households, and \$150,000 for joint filers. The first phaseout reduces the CTC by \$50 for each \$1,000 (or fraction thereof) by which modified AGI exceeds these income thresholds.

It is important to emphasize that the first level of phaseouts only applies to the temporarily increased credit amounts for 2021 and not to the \$2,000 base amount permitted under existing law. Taxpayers who are not eligible to claim the increased CTC in 2021 (because their AGI is too high) can still claim a regular CTC of up to \$2,000 per child subject to the existing phaseouts described in the opening paragraph.

- The CTC is fully refundable for 2021 for taxpayers with a principal place of abode in the U.S. for more than one-half of the tax year. This means that a taxpayer does not need income or need to owe tax in 2021 to receive the full amount of eligible CTC. Refunds, including any

remaining entitled CTC amounts, may also be subject to offset for tax debts or other federal or state debts owed.

Please note that the \$500 nonrefundable credit amount for “other dependents” has not changed. Other dependents include children who are 18 or older, parents, and qualifying relatives supported by the taxpayer.

The ARPA also required the IRS to establish a temporary advance payment program. The payments were calculated by the IRS based on their estimate of the taxpayers 2021 CTC. Depending on what was on file with the IRS, 2019 or 2020 returns were used to calculate the advance payments. Each payment was calculated as 1/12 of the annual advance amount for the calendar year. The payments were required to be made from July 2021 through December 2021.

So, what does all of this mean for filing 2021 tax returns?

Taxpayers who received advance CTC payments from the IRS must reconcile those payments on their 2021 tax returns. Payments made in excess of the allowable CTC may need to be repaid. Taxpayers who received less than the amount they are eligible for will be able to claim a credit for the remaining amount on their 2021 returns.

Tools available from the IRS

To help taxpayers reconcile and receive 2021 CTCs, the IRS started sending out “Letter 6419” in January 2022. If the advanced CTC payments were based upon a married filing joint tax return, the taxpayer and the spouse will each receive their own letter. This letter includes the total amount of advance CTC payments taxpayers received in 2021 and the number of qualifying children used to calculate the advance payments. However, it is important to note that the IRS has acknowledged some of the letters may contain incorrect or out-of-date information. To confirm information, taxpayers can obtain the total amount of advance CTC payments that were disbursed from the IRS’s Child Tax Credit Update Portal or a taxpayers IRS Online Account.

The IRS also revised “Schedule 8812” to calculate the taxpayers eligible child tax credits, reconcile advance child tax credit payments received in 2021, and figure out additional credits or tax owed. To help even further, the IRS issued a set of frequently asked questions regarding the expanded CTC on January 31, 2022, which can be found here: <https://www.irs.gov/pub/newsroom/fs-2022-06.pdf>

In summary, the 2021 CTC enhancements will certainly be beneficial to many taxpayers; however due diligence needs to be taken on the taxpayers’ part to 1) Gather the appropriate information, 2) calculate the maximum eligible credit, and 3) reconcile any advance payments received on your 2021 tax return. Still unsure? Reach out to your tax advisor and they will be able to assist and happy tax filing season to everyone! ■



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