

Cliff Notes - Tax Law Updates

Child Tax Credit/Advance Child Tax Credit

Summary/Description

- One year expansion for 2021 tax year only, per the American Rescue Plan Act of 2021)
- For tax year 2021, the Child Tax Credit is increased from \$2,000 per qualifying child to:
 - \$3,600 for children ages 5 and under at the end of 2021; and
 - \$3,000 for children ages 6 through 17 at the end of 2021.

Note: The \$500 nonrefundable Credit for Other Dependents amount has not changed.

- The Advance: 50% of it will be paid in advance with monthly payments. But those monthly payments will only run from July to December 2021. (The payments will be made on July 15, August 13, September 15, October 15, November 15 and December 15.) The remaining 50% will be claimed as a credit on your 2021 tax return.
- Filers can OPT-OUT of the advance by going online and selecting to receive the full CTC on their 2021 tax return instead.
- IF filers are paid too much (i.e., more than the child tax credit they're entitled to claim for 2021), they might have to pay back some of the money.
 - Filers with 2021 modified AGI no greater than \$40,000 (single filers), \$50,000 (head-of-household filers), or \$60,000 (joint filers) won't have to repay any child tax credit overpayments.
 - Filers with a modified AGI from \$40,000 to \$80,000 (single filers), \$50,000 to \$100,000 (head-of-household filers), or \$60,000 to \$120,000 (joint filers) will need to repay a portion of any overpayment.
 - Filers with modified AGIs above those amounts will have to pay back the entire overpayment.
- The \$2,500-of-earned-income required is dropped for 2021, too. Children who are 17 years old also qualify for the 2021 credit.

Phaseout-

- The Child Tax Credit begins to be reduced to \$2,000 per child if your modified AGI in 2021 exceeds:
 - \$150,000 if married and filing a joint return or if filing as a qualifying widow or widower;
 - \$112,500 if filing as head of household; or
 - \$75,000 if you are a single filer or are married and filing a separate return.
- The first phaseout reduces the Child Tax Credit by \$50 for each \$1,000 (or fraction thereof) by which your modified AGI exceeds the income threshold described above that is applicable to you.
- The Child Tax Credit won't begin to be reduced below \$2,000 per child until your modified AGI in 2021 exceeds:
 - \$400,000 if married and filing a joint return; or
 - \$200,000 for all other filing statuses.
- The second phaseout reduces the Child Tax Credit by \$50 for each \$1,000 (or fraction thereof) by which your modified AGI exceeds the income threshold described above that is applicable to you.

[\(CLICK HERE TO READ\) = \(https://www.irs.gov/pub/irs-pdf/p5549.pdf\)](https://www.irs.gov/pub/irs-pdf/p5549.pdf). 26 Pages -

Or, If you prefer (Yes Please), here is a link to [FAQ pages: Much easier to navigate!](#)

Child and Dependent Care Tax Credit - *This one is a hot topic now also. Up to \$16,000 credit... Be careful!!!*

Summary/Description – (Good Article - <https://www.kiplinger.com/taxes/602508/child-care-credit-expanded-for-2021>)

- One year expansion for 2021 tax year only, per the American Rescue Plan Act of 2021
- For tax year 2021, the child and dependent care credit is **fully refundable**. (Previously non-refundable)
- Increased credit rate and income phaseout amounts – the maximum credit percentage jumps from 35% to 50%.
- More care expenses are available for the credit.
- For 2021, the credit is allowed for up to \$8,000 in expenses for one child/disabled person and \$16,000 for more two or more qualifying persons.
- Increased the maximum exclusion amount for employer-provided dependent care benefits to \$10,500

Phaseout: Instead of the credit percentage starting to decrease when AGI exceeds \$15,000, it won't be reduced until AGI reaches \$125,000.

So...

- Every eligible family with an AGI of \$125,000 or less will get a credit worth 50% of their qualifying expenses.
- The percentage is gradually reduced from 50% to 20% for people with an AGI between \$125,001 and \$183,001.
- It stays at 20% for families with an AGI from \$183,001 to \$400,000, but then it's gradually reduced again from 20% to 0% for taxpayers with an AGI above \$400,000.
- If your AGI is above \$438,000, you won't get a credit.

Earned Income Tax Credit

- The credit reduces any federal income tax you owe, dollar-for-dollar.
- If the credit completely eliminates your tax bill, and some credit is still left over, you can actually get a cash refund for the remaining amount.
- More workers without qualifying children will be able to claim the earned income tax credit (EITC) on their 2021 tax return, including both younger and older Americans.
- The "childless EITC" amounts will be higher, too.
- Plus, there are other changes that will help the bottom line for lower-income Americans as well.

Per the March 2021 American Rescue Plan (**Section 9621 – Earned Income Tax Credit (pages 381 -398)**):

- For 2021 – the minimum age to collect EITC is 19 (not 25) for a taxpayer without children unless they are a full-time student (age 24) or a former foster child (age 18).
- **NO MAX age - could be 80 years old.**
- **Check box on 1040 - "IF you have not reached the age of 19 by Dec 31 and satisfied all other requirements..."**
- **Check box on EIC schedule - MFS can claim EIC if they meet the requirements - can't live with spouse in last 6 months.**
- **The amount of EITC individuals without children are eligible to receive has basically been doubled.**

- Investment income amount has been raised to \$10,000 (permanent change)
- Taxpayers will be allowed to use 2019 Earned Income if it is greater to calculate 2021 EITC.
 - They are not allowed to use 2020 earned income to calculate the 2021 EITC.

Tax Year 2021

Find the maximum AGI, investment income and credit amounts for tax year 2021.

Children or Relatives Claimed	Maximum AGI (filing as Single, Head of Household, Widowed or Married Filing Separately*)	Maximum AGI (filing as Married Filing Jointly)
Zero	\$21,430	\$27,380
One	\$42,158	\$48,108
Two	\$47,915	\$53,865
Three	\$51,464	\$57,414

Investment income limit: \$10,000 or less

Maximum Credit Amounts

The maximum amount of credit you can claim

- No qualifying children: \$1,502
- 1 qualifying child: \$3,618
- 2 qualifying children: \$5,980
- 3 or more qualifying children: \$6,728

* Taxpayers claiming the EITC who file Married Filing Separately must meet the eligibility requirements under the special rule in the American Rescue Plan Act (ARPA) of 2021.

2021 Tax Brackets for Single/Married Filing Jointly/Head of Household

Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Jointly)	Taxable Income (Head of Household)
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200

22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$523,600