



Blystone & Bailey

Jill Bourland, CPA
Paul G. Truman, CPA
Glen D. Blystone, CPA
Thomas J. Bailey, CPA

Certified Public Accountants
619 S Mission Street
Mt Pleasant, MI 48858
(989) 772-4673 • Fax (989) 772-6371
Mt Pleasant • Midland • Canadian Lakes
www.blystonebailey.com

Bart N. Blystone, CPA
Nathan J. Haines, CPA
Jonathon T. Crowley, CPA
Leah M. Rau, CPA

2021 Expanded Child Tax Credit

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

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

1. Definition of a qualifying child is broadened to include 17 year-olds (i.e., haven't turned 18 by the end of 2021).
2. 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.

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

- o 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
- o 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.

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.

When considering the advanced payments option, exercise caution because you will need to factor in whether you anticipate your income will increase over the thresholds allowed in 2021 or be subject to repayment when filing your 2021 tax 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). 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.

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 contact Blystone & Bailey, CPAs at (989) 772-4673.