

Federal Child Tax Credit – 2021 Rules and Advance Child Tax Credit Payments



Frequently Asked Questions

What is the Child Tax Credit (CTC)?

The Child Tax Credit is a federal tax credit available for families with children under the age of 18 that helps to reduce taxes owed and increase refunds. The credit is first applied to taxes owed to reduce the amount. Then, if the credit amount exceeds the amount owed in taxes, the qualifying taxpayer receives the remainder as a tax refund.

Who qualifies for the CTC?

The rules governing who qualifies for the CTC have changed for 2021. Prior to 2021, the CTC allowed taxpayers to claim a credit of up to \$2,000 for each child in a family under 18 years of age. Additionally, very low-income earners did not qualify for additional child credits. For the 2021 Tax Year, the maximum CTC amount has increased to up to \$3,600 for children under 6 years of age and up to \$3,000 for children ages 6 to 17. Additionally, for 2021, even if you have an income of \$0, you can receive advance CTC payments if you are eligible. ITIN filers qualify for the CTC and advance CTC payments, provided that they have one or more qualifying children.

There are income limitations on receipt of the CTC. The maximum credit amount of your CTC may be reduced based on other types of benefits or credits that you receive, such as education credits or health credits, or if you earn too much. If your modified AGI exceeds the following income limits, your maximum CTC begins to be reduced to \$2,000, at increments of \$50 per \$1,000 that your modified AGI exceeds the threshold:

- \$150,000 if married filing jointly, or if filing as a qualifying widow or widower
- \$112,500 if filing as head of household
- \$75,000 if you are a single filer, or married and filing a separate return

If your modified adjusted gross income (AGI) is \$400,000 or more and you are married filing jointly, or if your AGI is \$200,000 or more and you have any other filing status, your maximum CTC amount may be reduced below \$2,000 per qualifying child, at increments of \$50 per \$1,000 that your modified AGI exceeds the threshold.

Will the 2021 changes to the CTC and advance CTC payments remain in effect in 2022?

No. The rules regarding the CTC, including who qualifies to receive the payments and payment amounts, will return to the pre-2021 rules starting in January 2022. Advance CTC payments are only available for the 2021 Tax Year, as these changes were made to help alleviate hardships caused by the COVID-19 pandemic.

Am I eligible for the CTC if my child is not a U.S. citizen?

No. A qualifying child must be under the age of 18 on December 31, 2021 and is required to be a U.S. citizen with a valid Social Security number.

What are advance CTC payments?

Changes made to the CTC for 2021 allow families with one or more qualifying children to get advance payments on the CTC starting in July 2021 until December 2021. The advance payments allow families to receive half of

the total credit amount in advance, paid in monthly installments. The remaining half of the credit is claimed when you file your 2021 income tax return.

Who is eligible to receive advance CTC payments?

Advance CTC payments are available for families with one or more qualifying children. A qualifying child is one who:

- Does not turn 18 before January 1, 2022
- Is a taxpayer's son, daughter, stepchild, eligible foster child, brother, sister, stepbrother, stepsister, half-brother, half-sister, grandchild, niece, or nephew
- Does not provide more than one-half of his or her own support in 2021
- Lives with the taxpayer for more than half the year
- Is properly claimed as the taxpayer's dependent
- Has a Social Security number

Additionally, your main home must be located in one of the 50 states or the District of Columbia for more than half of the year to qualify for advance CTC payments. Your main home is any location where you regularly live. Your main home does not need to be the same physical address throughout this period, and you do not need to have a permanent address, as long as you have resided in the U.S. for more than half of 2021.

If you have filed your 2020 tax return or your 2019 tax return, you will receive monthly advance CTC payments starting in July and through December 2021, based on the information that you provided on that return.

When will the advance CTC payments be disbursed?

Advance CTC Payments began to be issued in July 2021 through direct deposits or paper checks. Families who did not receive their initial payments during July and August, due to delays in the roll out of the payments, received increased adjusted payments for their September payment. Payments are issued once a month on the 15th of the month. Payments will be issued from July 2021 until December 2021. The remaining balance of the CTC will be applied to your 2021 tax return.

If you qualify for advance CTC payments and filed a 2020 tax return or a 2019 tax return, the IRS sent you a Letter 6417 in June 2021 informing you of the amount of your estimated CTC monthly payments.

Advance CTC payments will be made automatically to those who qualify, and have not opted out, through direct deposit or through mailed paper check. If you wish to make changes to your bank account information or address information that is on file with the IRS through your 2020 tax return or 2019 tax return, you should use the Child Tax Credit Update Portal (CTC UP) to update your information with the IRS.

How much will I receive monthly through my advance CTC payments?

The amount of your advance CTC payments is determined by your income eligibility and the age of your qualifying child. The IRS determines this amount by estimating the amount you will claim on your 2021 tax return during the 2022 tax filing season, based on the information that you provided on your 2020 tax return or your 2019 tax return.

On average, for each qualifying child aged 5 or younger, you will receive \$300 a month between July and December 2021, and for each qualifying child ages 6 to 17, you will receive \$250 per month during this same period.

Can I opt out of advance CTC payments?

Yes. If you would prefer not to receive monthly advance CTC payments because you would rather claim the full credit when you file your 2021 tax return, or if you know that you will no longer be eligible for the CTC for your

2021 tax year, you can unenroll through the Child Tax Credit Update Portal before the first advance CTC payment is made.

If you tend to owe money to the IRS when you file your tax return, you may want to consider opting out of the advance CTC payments. This is because the full CTC offsets what is ultimately owed to the IRS and therefore, receiving the full amount when you file your 2021 tax return may be more beneficial for your family. Additionally, if you typically receive a refund from the IRS when you file your tax return, and would prefer to receive a lump sum rather than monthly installment payments, you may want to consider opting out of the advance CTC payments, as the advance payments will be taken out of your 2021 refund.

Can I receive the advance CTC payments if I did not file a tax return in 2019 or 2020?

If you did not file your 2020 tax return or your 2019 tax return, you may still receive the advance CTC payments, but you must take action. The IRS has an online Non-Filer Tool that allows individuals who were either not required to file, or did not file, a tax return for 2020 to file a simplified tax return. This simplified tax return will allow eligible individuals to register for advance CTC payments. Additionally, you can file your 2020 tax return using IRS Free File or Free File Fillable Forms and claim the CTC.

Am I eligible to receive advance CTC payments if my qualifying child was born in 2021 or adopted in 2021?

Yes. If you have a qualifying child who was born in 2021 or who was adopted in 2021 and therefore, is not listed on your 2020 tax return or 2019 tax return, you are still eligible to receive advance CTC payments. To receive advance CTC payments, update your family information through the Child Tax Credit Update Portal.

What if more than one parent is eligible to claim a qualifying child as a dependent on their tax return?

If a qualifying child's parents file their taxes separately, then only one parent may claim the child as a dependent on their income tax return. As such, only one parent is eligible to receive advance CTC payments for a qualifying child. The parent who will claim the qualifying child on their 2021 tax return should receive the advance CTC. The other parent should use the Child Tax Credit Update Portal to unenroll from advance payments.

Are advance CTC payments considered taxable income?

No. Advance CTC payments are not considered to be income and will not be reported as income on your 2021 tax return. However, the amount you receive as advance CTC payments is based on the IRS's estimate of your 2021 CTC. If the total you receive is ultimately greater than the amount that you are allowed to claim on your 2021 tax return, you may have to repay the IRS during the 2022 tax filing season.

Similarly, advance CTC payments cannot be counted as income or as a resource when determining if you or anyone else is eligible for any other government benefits or assistance, or when determining how much you or anyone else can receive. This includes benefits or assistance under any federal program or any state or local program that is financed in part with federal funds.

For more information about the Child Tax Credit or advance Child Tax Credit Payments, please visit the IRS – 2021 Child Tax Credit and Advance Child Tax Credit Payment website.

