

## The American Rescue Plan Act: Frequently Asked Questions on the Child Tax Credit

Strengthening the Child Tax Credit in the recently passed stimulus bill may lift as many as [four million children out of poverty](#) and significantly cut child poverty for Black and Hispanic children and could in fact cut child poverty by [more than half](#). Poverty is an important predictor of child maltreatment and policies that strengthen the economic security of low-income families may reduce child maltreatment. Moreover, economic policies that increase household incomes may decrease familial stress while at the same time increasing child health and well-being.

Over [90% of children in the US will benefit from the child tax credit expansion](#) in the American Rescue Plan Act of 2021, ranging from 76% of children in DC to 96% of children in Arkansas. The expansion of the Child Tax Credit and other tax credits are only designed for one year, which means the program may revert to its previous form in 2022. Prevent Child Abuse America (PCA America) is hopeful that lawmakers may extend the expansions and investment in families. These types of sustained economic supports to families will allow for greater and better access to child care, home visiting, other human services, etc., leading to increased family stability and reducing child abuse and neglect.

### What is the expanded Child Tax Credit under the American Rescue Plan?

The American Rescue Plan makes historic expansions to tax credits for working families. The relief bill overhauls the Child Tax Credit by expanding the current annual benefit, including more low-income households, and distributes the credit's benefit through monthly cash payments.

The credit amount is significantly increased for one year. Beginning in July 2021 and lasting for at least one year, families with children will be eligible to receive a tax credit of up to \$3,600 for each child ages birth through five and up to \$3,000 for each child ages six through 17. This benefit represents an increase from a previous cap of \$2,000 for each child regardless of age, it is newly inclusive of children age 17, and families are no longer subject to the earnings minimum to be eligible for a refund.

Another key improvement is that the child tax credit will be fully refundable – meaning that one will get the full amount even if no taxes are owed. Previously, only up to \$1,400 of the \$2,000 could be returned to families who had less than \$2,000 in tax liability. In addition, half of the benefit will be disbursed through monthly checks from July 2021 through December 2021, and the remaining portion will be provided at tax filing time in 2022.

These changes could have a major impact on millions of families, especially low-income households and those whose earnings can fluctuate from month to month. This significant temporary expansion to the child tax credit offers a form of guaranteed income to parents of

children under 18. The monthly disbursement schedule and full refund-ability means that the credit is effectively a “child allowance”—a guaranteed periodic benefit for families with children, regardless of earned income.

### Who qualifies for the expanded Child Tax Credit in 2021?

The full child tax credit will be available to individuals who earn up to \$75,000 and couples earning up to \$150,000. Families with children under age six will receive a tax credit of up to a \$3,600 per child and families with children ages six to 17 will receive a tax credit of up to \$3,000 per child. However, the payments would be reduced for people with earnings above those thresholds.

The credits DO phase out eventually for those with the highest incomes, but analyses show that [over 90% of American children](#) will benefit from this tax credit expansion. This makes the enhanced Child Tax Credit much closer to a universal child benefit than the previously. Families who earn too much to qualify for the expanded tax credits could still claim the base \$2,000 credit for their children. Once a single parent family reaches \$200,000, or a married-parent family reaches \$400,000, then the benefit starts to decline eventually down to zero at the highest incomes. Additionally:

- The credit will be reduced by \$50 for every additional \$1,000 of Adjusted Gross Income (AGI) earned. (The \$3,000 credit provided to parents of a child aged 6 to 17 would be phased out completely for individuals earning \$95,000 and those making \$170,000 and filing jointly)
- Families who are ineligible for the new \$3,000 credit because they earn higher AGI than laid out in the law are still able to claim the \$2,000 per child tax credit, which is available to individuals making up to \$200,000 (\$400,000 for married couples filing jointly).
- The child tax credit is extended to U.S. territories and allows families in Puerto Rico to file directly with the IRS to receive the credit.

### How will the Child Tax Credits be distributed?

Families should automatically get the expanded Child Tax Credit benefits if they file their 2020 tax return and meet the income and eligibility requirements. Families would likely receive the credit in the same way they got their stimulus payments and/or tax refunds (direct deposit or by check).

The intent is that the Child Tax Credit will be partially paid out on a monthly basis, rather than claimed once per year when people file their tax returns. In other words, a qualifying

family with two children under age six would receive \$7,200 in child tax credits, or \$600 in monthly payments. But, the monthly payments will run only from July through December of 2021, with the other half of the Child Tax Credit paid when people file their tax returns. Said differently, households could receive six months of monthly income, and then receive the rest of the child tax credit through their tax refund.

Another change to the Child Tax Credit is that it is fully refundable, meaning the entire credit could be provided as a refund if it exceeds an individual's income tax liability, instead of partially refundable under current law. The payments would be based on a parent's 2019 or 2020 federal return, whichever is the most recent available to the Internal Revenue Services (IRS). The changes to the child tax credits are complicated and exact details on how the IRS will be dispersing credits is forthcoming. The American Rescue Plan provides over \$397 million in funding for the IRS to implement and administer the new tax credit.

Lastly, one does not have to be employed to receive the tax credit. **The challenge for low to no-income families is that parents DO have to file taxes to receive the refund.** The IRS will continue releasing more details over the coming months, but it is critical that families file their taxes in order to receive these benefits. Many families who have not had earned income in the past and have not filed may not know they need to do this in order to receive the Child Tax Credit. This is certainly something PCA America and other national partners are monitoring and will provide any insight as to how advocates, states, and the federal government ensure families don't miss out on the benefits for which they are eligible.

### Child Tax Credit Highlights

- The tax credit is fully refundable
- One does not have to be employed to receive the tax credit
- The tax credit allows households with no income to claim the credit as long as they file taxes. Previous rules limited the credit to those earning at least \$2,500.
- Payments could begin as soon as this summer:
  - The IRS could start providing advances on the 2021 credit through periodic payments of \$250 for school-aged children starting as early as July 2021, depending on what the Treasury Department determines is workable. Under the proposed schedule, which could be as frequent as monthly, families could receive half of their total 2021 Child Tax Credit this year and claim the remaining amount on their 2021 tax returns
- The Child Tax Credit is temporary as the legislation only guarantees the increase for the 2021 tax year.

## ✿ What are the additional expansions in tax credits under the American Rescue Plan?

### Child and Dependent Care Tax Credit

In addition to expanding the child tax credit, the American Rescue Plan helps families to access high-quality child care by expanding the Child and Dependent Care Tax Credit (CDCTC) to allow families to claim up to half of their child care expenses. Families will now be able to receive a refundable 50% tax credit to defray caregiving costs. The expanded CDCTC will provide an increase of up to a \$4,000 tax credit applied to caregiving expenses for qualifying dependents (including children under age 13 and elderly or disabled adults) or \$8,000 for two or more qualifying dependents.

The American Rescue Plan makes the CDCTC into a fully refundable tax credit; families can receive a refund for any portion of the credit that remains after their tax liability reaches \$0. Families earning over \$125,000 will be eligible for a partial credit (phasing down to a 20% credit at \$400,000, and reduced by 1 percentage point for each \$2,000 in income above \$400,000). Previously, the credit began to decrease in value after just \$15,000 in income. These changes only apply for tax year 2021, but could be made permanent with future legislation.

### Tax Credits for Paid Sick and Family Leave

The American Rescue Plan extends tax credits for employers providing paid sick and family leave as established under the Families First Coronavirus Response Act, effective after March 31, 2021 and through September 30, 2021. These extensions include increasing eligible wages per employee, expanding types of leave to include vaccination, and covering as many as 60 days of paid family leave for self-employed individuals (instead of 50 days under previous law).

## ✿ Resources:

- [American Rescue Plan Act Includes Critical Expansions of CTC and EITC](#)
- [American Rescue Plan Act of 2021 \(ncsl.org\)](#)
- [Benefits of Expanding Child Tax Credit Outweigh Small Employment Effects](#)
- [Biden Administration Plan Will Likely Cut Child Poverty in Half](#)
- [The America Rescue Plan Provisions](#)
- [The Strong Case for Child Allowances to Fight for Racial Justice and Against Child Poverty](#)
- [American Rescue Plan, Expanding Tax Relief for Working Families](#)
- [How will the American Rescue Plan Strengthen the Prenatal-to3 System of Care? A Summary of the 2021 Act's Benefits for Infants and Toddlers](#)
- [Understanding the Expanded Child Tax Credit – Children's Defense Fund](#)

