

July 2021

## American Rescue Plan Act of 2021

This letter provides an overview of significant changes to the Child Tax Credit (CTC) that are a result of the American Rescue Plan Act of 2021 (ARPA). For the 2021 tax year, the amount of the CTC will be increased for certain taxpayers, and the IRS will begin to make monthly advance payments of the credit to taxpayers from July to December of 2021. The enhancements to the CTC are temporary and will apply to the 2021 tax year only.

Under prior law, the CTC was \$2,000 per qualifying child. A qualifying child was defined as a child under the age of 17 that could be claimed as a dependent and who was a U.S. citizen or national or U.S. resident. The CTC was reduced for taxpayers with a modified adjusted gross income (AGI) of more than \$200,000 or \$400,000 for married filing jointly returns. At \$240,000 for single filers and \$440,000 for joint filers, the credit was phased out entirely.

The ARPA temporarily expanded the definition of a qualifying child to include 17 year-olds (those that have not turned 18 by the end of 2021). The act also increased the CTC by \$1,000 per qualifying child and by \$1,600 per child under the age of 6 at the close of the year. As a result, qualifying taxpayers may see an increase in their CTC to \$3,000 or \$3,600 per child on 2021 tax returns. However, the increased CTC will be subject to a separate phase-out limitation which results in two different sets of rules for the credit regarding the 2021 tax year. The increased CTC amount (additional \$1,000 or \$1,600) will be phased out for taxpayers with a modified AGI of over \$75,000 for singles, \$112,500 for heads of households, and \$150,000 for married filing jointly filers and surviving spouses. The credit phases out by \$50 for every \$1,000 of income over the threshold amounts. After applying this phase-out rule to the increased amount, the remaining \$2,000 credit is subject to the prior modified AGI phase-out limitations (\$200,000 or \$400,00 for joint returns).

### Important Takeaways -

If you get an advance child tax credit payment – **SAVE IT!** You may owe it back when you file your return.

Keep track of the amount you receive! We will need to know the amount you may have received to properly complete your 2021 return.

### The IRS is severely behind!

“Right now, millions of taxpayers are waiting for their much-needed refund and stimulus payments. Millions more are trying to settle issues with past tax returns and unable to get a human being on the telephone, while interest costs potentially tick up each day...”

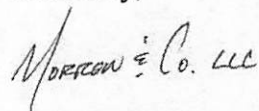
“On the 1040 line, the most frequently called toll-free IRS number, only 3% of 85 million calls from taxpayers reached a phone assister.” – Washington Post

The IRS was ordered under the terms of the ARPA to make monthly advance payments of the CTC in an amount equal to 50% of the estimated 2021 CTC. The payments will be made from July to December 2021, and the estimated credit will be based upon the most recently filed tax return by a taxpayer (2020 or 2019). If a taxpayer receives advance CTC payments that are in excess of the CTC allowable on the 2021 tax return, the excess amount will increase the tax liability on the 2021 return.

On the IRS website at <https://www.irs.gov/credits-deductions/child-tax-credit-update-portal>, a Child Tax Credit Update Portal has been established. The portal allows taxpayers to check eligibility for the advance payments, unenroll from receiving advance payments, and update bank account information regarding the monthly payments. Some taxpayers may wish to unenroll in order to avoid possible tax liabilities on the filing of 2021 tax returns. However, unenrolling requires taxpayers to establish an online IRS account. This is a cumbersome process that requires both filers on a joint return to establish accounts. It also requires a taxpayer to submit a front and back picture from a driver's license or passport and to utilize a scan of the face for facial recognition.

If a taxpayer decides to receive the advanced payments, there is a possibility that some or all of the advanced amount may need to be repaid to the IRS. An alternative to opting out of the payments via an online IRS account may be to simply save back the amount of the total monthly advance payments with the expectation that they will be paid back upon the filing of the 2021 tax return. If repayment is made prior to the tax filing deadline, no penalty or interest will be assessed on the account. It will be very important that taxpayers receiving the advance payments of the CTC provide return preparers with documentation regarding the advance payments received since they will be reconciled on the filing of the 2021 tax return. This letter has provided a general overview of the significant changes to the CTC for the 2021 tax year. If you have questions or concerns about your specific tax situation, please do not hesitate to contact our office. It is important to remember that these changes will only impact the 2021 filing season and, barring additional legislative action, the credit will revert back to pre-ARPA rules in future tax years. Thank you for your time and attention concerning this matter.

Sincerely,



Morrow & Co, LLC

