



Advance Child Tax Credit

Many American families began receiving Advance Child Tax Credit (ACTC) payments on July 15. Here's what you need to know about the changes to the child tax credit, choices you can make, and planning for 2021 taxes.

The ACTC is an advance payment of half of the expanded child tax credit (CTC) made available under [the American Rescue Plan](#). The remainder of the credit gets settled on 2021 tax returns due in 2022. Although there are proposals to extend it, the expanded CTC is currently only available in 2021.

To qualify for advance Child Tax Credit payments, you — and your spouse, if you filed a joint return — must have:

- Filed a 2019 or 2020 tax return and claimed the Child Tax Credit on the return; or
- Given the IRS your information in 2020 to receive the Economic Impact Payment using the [Non-Filers: Enter Payment Info Here tool](#); and
- A main home in the United States for more than half the year (the 50 states and the District of Columbia) or file a joint return with a spouse who has a main home in the United States for more than half the year; and
- A qualifying child who is under age 18 at the end of 2021 and who has a valid Social Security number; and
- Made less than certain income limits: taxpayers must have a modified adjusted gross income (AGI) of:
 - \$75,000 or less for singles,
 - \$112,500 or less for heads of household, and
 - \$150,000 or less for married couples filing a joint return and qualified widows and widowers.

For most people, modified AGI is the amount shown on Line 11 of their 2020 Form 1040 or 1040-SR. Above these income limits, the extra amount over the original

\$2,000 credit — either \$1,000 or \$1,600 per child — is reduced by \$50 for every extra \$1,000 in modified AGI.

For Most Qualified Taxpayers, the ACTC is Automatic: Income-eligible parents who filed tax returns for 2019 or 2020 (whichever is the latest year that the IRS has on file) will receive ACTC payments automatically. For others, the IRS has a [non-filer sign up tool](#) on its website to report qualifying children born before 2021. This group includes low-income families who did not earn enough to have to file taxes.

Payment Dates are Fixed: The [six scheduled payment dates](#) for ACTC benefits payable in 2021 are July 15, August 15, September 15, October 15, November 15, and December 15. Most payments will be made through direct deposit to a parent's financial account. The purpose of advance payments- versus simply getting the expanded tax credit via an income tax return next year is to get money in the hands of eligible families sooner for COVID-19 relief.

Payment Amounts are Fixed: The "regular" child tax credit is \$2,000 per eligible child age 16 and younger and \$1,400 is refundable. A refundable tax credit means that an individual could get even more back as a tax refund than what they owe for taxes. For 2021 only, the expanded CTC increases to \$3,000 per child age 6 to 17 and \$3,600 for children under age 6 and the credit is fully refundable. ACTC payment amounts from July through December 2021 are \$250 per month (children age 6-17) and \$300 per month (age 5 and younger).

Useful Resources: The IRS recently unveiled its [Child Tax Credit Update Portal](#) to assist parents with questions about the ACTC payments. At this portal, users can view their eligibility and advance payments and unenroll from receiving advance payments.

The IRS is Contacting Eligible Taxpayers: The IRS has sent two letters to approximately 36 million eligible families, one to [notify them about their eligibility](#) for ACTC payments and the second to notify them of their estimated monthly payment. Taxpayers should notify the IRS immediately to [update necessary information](#) such as a change in address, bank account, or number of eligible children.

Taxpayers Could Be Overpaid: Because the IRS is using past tax year data for a current tax year credit, there will be some overpayments. For example, taxpayers who found a higher-paying job, got a pay raise or bonus, added a spouse to the labor force, or had investment capital gains or any other extra taxable income in 2021. They could find themselves over the income limits that are noted above. Unlike excess stimulus payments that were forgiven, ACTC overpayments will result in a smaller refund or an extra tax bill in 2022.

Single-Parenting Makes Things Complicated: Some divorced or never-married parents alternate the child tax credit between parents with one parent taking it in odd years and the other in even years. The IRS, however, does not know this and will send ACTC payments to the parent listed on the last tax return that it has on file. Co-parenting couples need to deal with this (as well as the increased payment available in 2021) based on the specifics of their financial agreements.

There are Several Good Reasons to Opt-Out: While ACTC payments are available in 2021, they are *not* required. Some taxpayers may want to [opt out of advance payments](#) and receive whatever expanded CTC they may be due when they file their 2021 tax return in 2022. Good candidates for opting out of ACTC payments now and waiting to figure out credit amounts in 2022 are taxpayers in the following categories:

- Those who do not normally receive a refund and do not want to owe a larger amount than usual.
- Those who are unsure of their total 2021 income, such as freelancers and potential job changers.

- Those who prefer one large tax refund payment instead of a series of smaller monthly payments.
- Those who are not sure if they will have a dependent child under age 18 living with them for at least 6 months in 2021. This could include foster parents or family members caring for a minor.



There are Deadlines to Opt-Out: The deadline to opt-out or stop an upcoming ACTC payment for each month is posted below:

- Friday, August 13 - opt out by August 2
- Wednesday, September 15 - opt out by August 30
- Friday, October 15 - opt out by Oct. 4
- Monday, November 15 - opt out by November 1
- Wednesday, December 15 - opt out by November 29

Unenrollment from advance payments is done using [the IRS portal](#) and clicking on “Unenroll from Advance Payments.”

Save Half “Just in Case” Estimating taxes you may owe is always tricky, but never more so in times of economic turmoil such as what Americans have experienced in 2020-21. Many tax experts recommend a “save half, spend half” strategy for ACTC payments just in case your income or number of dependent children changes during 2021. If you receive more than you are due for ACTC, you may need to repay to the IRS some or all of that excess payment. In January 2022, the IRS will send you Letter 6419 to provide the total amount of advance Child Tax Credit payments that were sent to you during 2021 for your tax records. You may need to refer to this letter when you file your 2021 tax return during the 2022 tax filing season. If it turns out you don’t owe more to the IRS, you will have extra savings set aside to use as needed.