

## Tax Repercussions Of The Child Tax Credit - Tax Planning

This past month, around mid-July, millions of Americans received a tax credit deposit to their bank accounts. This was a surprise for many, yet part of the pandemic relief program that slated billions to eligible families with children.

In March of this year, Congress expanded the child tax credit to \$3,600 per child for the year, from \$2,000. The increased credit was in response to the financial fallout of the pandemic in order to assist families nationwide across all income brackets. The IRS made the first of six monthly payments in July to all eligible families.

The tax credits are based on the most recent tax return filed, so if 2020 hadn't been filed yet, then payments were based on 2019 tax returns. There is an income phase out at \$75,000 for single filers and \$150,000 for most married filers. Above these income limits, the tax credit phases out or reduces by \$50 for every \$1000 of additional income.

Tax repercussions can occur should income be higher than the initial tax return used by the IRS. So if income is higher in 2020 than in 2019, which the IRS may have used for calculation, then taxes may be owed or a portion of the tax credit disallowed.

The maximum tax credit for 2021 is \$3,600 for each child under age 6 and \$3,000 for each child ages 6-17 through December 31, 2021. Half of the total credit amount will be paid in advance monthly payments starting July 15, 2021 and the other half will be credited when 2021 income tax returns are filed. In order to avoid a possible tax consequence from the advance payments, the IRS is allowing taxpayers to unenroll from the advance monthly payments. The IRS link to unenroll is <https://www.irs.gov/credits-deductions/child-tax-credit-update-portal>.

Sources: IRS, TaxPolicyCenter

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