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Everything to Know About the New \$3,000 Child Tax Credit

This child tax credit will give families a big boost in 2021.



By [Maryalene LaPonsie](#), Contributor March 15, 2021, at 1:37 p.m.



When families file their 2021 tax return, they will receive a \$3,000 tax credit for each qualifying child.(GETTY IMAGES)

THE CHILD TAX CREDIT isn't anything new, but it has gotten a major overhaul in the American Rescue Plan Act of 2021. The [third stimulus package](#) increases the amount of the credit, makes it fully refundable and paves the way for families to receive advance payments of the credit later this year.

"In 2021, there is a lot of great news for people who are eligible for the child tax credit," says Robbin Caruso, partner with international advisory and accounting firm Prager Metis.

As of right now, the changes are only applicable for the 2021 tax year. However, there is already talk in Washington about making some provisions permanent. While the result of those discussions remains to be seen, keep reading for everything you need to know about claiming the child tax credit for this year.

What Is the Child Tax Credit?

Originally enacted as part of the Taxpayer Relief Act of 1997, the child tax credit was initially a \$500 nonrefundable credit that could be applied by eligible families toward their federal income tax bill. Over the years, it has been expanded multiple times, and in 2021, the credit will be fully refundable and have a maximum value of \$3,600.

How Much Is the Child Tax Credit?

For the past few years, the child tax credit has been up to \$2,000 per qualifying child. Qualifying children have traditionally been defined as dependents up to age 17. Older dependents, including 17- and 18-year-olds as well as college-age children, were eligible for a \$500 credit.

[A tax credit](#) reduces the amount of taxes owed dollar for dollar. While the \$500 credit for older dependents is nonrefundable, up to \$1,400 of the \$2,000 child tax credit can be refunded. That means parents could receive that

However, for one year only, the American Rescue Plan Act significantly increases the credit amount and makes it fully refundable.

When families file their [2021 tax return](#) – that is the return due in April 2022 – they will receive a \$3,000 tax credit for each qualifying child, including 17-year-olds. Children who are younger than age 6 will qualify for a \$3,600 tax credit.

"That will be (based on) the age of the child at the end of the year," says Bob Lickwar, partner at accounting firm UHY LLP in Farmington, Connecticut.

Since the credit is fully refundable, that could mean more cash in parents' pockets. When combined with the other family assistance available through the American Rescue Plan Act, the Center on Poverty & Social Policy at Columbia University estimates there is the potential to cut the 2021 child poverty rate in half.

Changes to the Child Tax Credit

The American Rescue Plan Act makes several significant changes to the child tax credit. These include:

- Increased credits of up to \$3,000 per qualifying child between the ages of 6-17 and up to \$3,600 per qualifying child younger than age 6.
- Expansion of the credit to include 17-year-olds.
- Advance payments toward the credit during the second half of 2021.

"The new tax credit for 2021 is very different," says David Goldweitz, senior director of tax and accounting services with accounting firm Fiske & Company's Miami office.

Notably, it instructs the IRS to make advance payments to families who are expected to be eligible for the credit. These payments should equal half of a family's expected credit and be sent monthly or as often as is feasible.

"The goal is putting money into taxpayer pockets as quickly as possible," Goldweitz says.

How Will Advance Payments for the Child Tax Credit Be Sent?

It will be up to the IRS to create the process by which the advance payments are sent to families. However, it is expected that the agency will likely employ a system similar to what was used to send out [last year's stimulus payments](#). For those checks, previous years' tax returns were used to determine eligibility.

"The IRS really needs to be commended," Lickwar says. He notes the agency has had to react quickly to a number of significant tax changes in the past

year. If all goes well, the IRS should begin sending advance payments to eligible families on or before July 1, 2021.

As part of sending out advance payments, the IRS has been instructed to set up a portal to allow families to update their information. Once the portal is created, taxpayers can change their children's information or opt out of payments if desired.

When people file their 2021 taxes in 2022, they will need to reconcile the payments they received against the credit they are owed. If their income increased substantially or they can no longer [claim a child for a credit](#), they will have to repay any excess payments received.

For instance, while the tax credit was expanded to dependents who are age 17, it is based on a child's age as of Dec. 31, 2021. "If they are going to turn 18 in 2021, then they are out," says Claudia Sotolongo Gonzalez, associate principal with accounting firm Kaufman Rossin in Miami. In that case, parents may want to log into the portal, once created, to ensure they are not receiving an advance payment for that child.

Who Is Eligible to Claim the Child Tax Credit?

Taxpayers must meet income requirements to claim the child tax credit. There are separate thresholds for the regular \$2,000 child tax credit and the additional \$1,000 or \$1,600 tax credit offered for 2021.

"The AGI is king here in all these computations," Sotolongo Gonzalez says.

A person's [adjusted gross income, or AGI](#), must fall below these thresholds to receive the full child tax credit:

- \$200,000 for single filers and \$400,000 for those married, filing jointly to receive the normal \$2,000 child tax credit.
- \$75,000 for single filers, \$112,500 for heads of household and \$150,000 for those married, filing jointly to receive the additional \$1,000 per child age 6-17 and \$1,600 per child younger than age 6.

Those with incomes above this amount will see their credit decline \$50 for each \$1,000 in income earned above the threshold amount.

Beyond the income requirements, a child must live with you at least half the year, have a Social Security number and rely on you for support to be claimed for a credit.

How Can I Claim the Child Tax Credit?

To receive a child tax credit, you'll have to file a federal tax return. Those who receive advance payments in 2021 will also need to file a 2022 federal tax return to reconcile the amount they received with the amount they were due.

"It's incumbent upon taxpayers to be very careful when calculating these credits," Caruso says.

If the IRS determines someone recklessly or intentionally disregarded the rules when filing for a child tax credit, the taxpayer will be banned from claiming the credit for the next two years. If it's found a credit was issued due to fraud, a taxpayer will be banned from claiming the credit for 10 years.

Most tax software programs will walk you through the qualifications for the child tax credit and so long as you are entering information accurately and completely, you shouldn't run afoul of the rules. However, if you have any questions, talking to a tax professional is advisable.

"As always, we recommend checking with your CPA," Sotolongo Gonzalez says.

What if I Forgot to Take the Child Tax Credit Last Year?

If you forgot to claim a child tax credit, you can go back and amend your previous return to receive it. However, your child must have had a Social Security number issued by the due date of the return to receive the credit.

Will the Larger Child Tax Credit Be Made Permanent?

The American Rescue Plan Act only increases the child tax credit for one year. Next year, it is scheduled to return to its previous level of \$2,000 per child. However, some people think that could change. "There has been a lot of discussion already that a credit like this should be made permanent," Lickwar says.

Some, such as Caruso, say it's reasonable to think the credit could become fully refundable for years to come. However, she isn't so sure the advance payments will extend beyond 2021.

Others believe anything is possible given Congress's willingness to pass significant tax reform multiple times in recent years. "We've seen changes we never thought we would see," Sotolongo Gonzalez says. A permanently enhanced child tax credit might just be next.