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The Child Tax Credit: Frequently Asked Questions (FAQs) About the Child Credit for 2021 as Expanded by the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)

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Contents

Figures

Tables

Appendixes

Contacts

In March of 2021, Congress passed legislation significantly expanding the child tax credit for one year as part of the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). ARPA expanded the eligibility for and the amount of the credit for 2021, especially for low- and middle-income taxpayers. The law also directed the Treasury Secretary to establish a program to advance up to half of the total credit amount *before* 2021 income taxes are filed. This is a departure from most other tax benefits, which are typically delivered annually in a lump sum after federal income tax returns are filed.

The 117th Congress is considering proposals to extend and/or modify the temporary child credit expansion included in APRA. In April 2021, House Ways and Means Committee Chairman Richard Neal released a discussion draft of the Building an Economy for Families Act that includes a provision to permanently extend the ARPA changes to the child credit.[1] The Biden Administration has proposed making the full refundability provision included in ARPA permanent, while extending other ARPA provisions through the end of 2025.[2]

This report provides answers to selected frequently asked questions (FAQs) about the ARPA-expanded child credit for 2021. Additional resources may be found in the report's appendices:

- **Appendix A**: a selected compilation of research studies;
- **Appendix B**: a selected compilation of resources provided by Congress;
- **Appendix C**: a selected compilation of resources provided by Treasury and the Internal Revenue Service (IRS);
- **Appendix D**: a detailed explanation of the safe harbor rules; and
- **Appendix E**: a reference table on the child credit in the U.S. territories.

A. American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) Expansion of the Child Credit

A1. How did the child credit work before the ARPA expansion?

Prior to ARPA, the child tax credit allowed eligible taxpayers to reduce their federal income tax liability by up to $2,000 per qualifying child. For example, a family with three qualifying children could reduce their income tax liability by up to $6,000. A qualifying child was generally any dependent child under 17 years old. The credit was reduced in value, or phased out, by $50 for every $1,000 of income over $200,000 ($400,000 for married couples who filed joint tax returns).[3]

[1] See House Committee on Ways and Means, "Chairman Neal Unveils Groundbreaking Proposal to Reshape the American Economy," press release, April 27, 2021, https://waysandmeans.house.gov/media-center/press-releases/chairman-neal-unveils-groundbreaking-proposal-reshape-american-economy.

[2] See U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2022 Proposals*, May 2021, https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals; and CRS Insight IN11656, *The Child Tax Credit: How Would the Biden Administration's Proposed American Families Plan Change the Child Tax Credit?*

[3] For the purposes of phasing out the child credit, income is defined as modified adjusted gross income (MAGI). Prior to *and* after the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2), MAGI for the child credit equals adjusted gross income (AGI) increased by foreign earned income of U.S. citizens abroad, including income earned in Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico. Hence, for most taxpayers, the income used to phase out their child credit is their AGI.

If a taxpayer's income tax liability was *less than* the maximum value of the child tax credit, the taxpayer was generally eligible to receive all or part of the difference as the refundable portion of the credit. The refundable portion—the amount greater than income taxes owed—is referred to as the additional child tax credit (ACTC) and was generally calculated using what is commonly referred to as "the earned income formula."[4] Under the earned income formula, the ACTC gradually increased, or phased in, as earned income rose above $2,500. The maximum amount of the ACTC was $1,400 per qualifying child. CRS estimates that about one in every five taxpayers (19%) with a credit-eligible child had low incomes that resulted in them receiving less than the maximum credit.[5]

After 2021, the ARPA expansion is scheduled to expire. The credit will then revert to the prior-law parameters described above, which were included in P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act or TCJA. The TCJA modifications are scheduled to expire at the end of 2025 (see **Table 1**).[6]

Prior to ARPA, like other tax benefits, the child credit was received once a year after a taxpayer filed their income tax return (i.e., as part of their income tax refund).

A2. How did ARPA change the child credit?

ARPA made three main changes to the child credit that may affect the credit amount for certain taxpayers. The law also temporarily changed how the credit is being delivered. These changes are temporary and in effect for one year—2021.

The three changes that may affect the credit amount for some taxpayers are as follows:

- **Expanding eligibility to 17-year-olds:** The law increased the maximum age for an eligible child from 16 to 17.[7]
- **Making the credit fully refundable:** The law eliminated the ACTC phase-in based on earned income and eliminated the ACTC cap of $1,400 per child.[8] Hence, the child credit is "fully refundable" and the full value is available to otherwise eligible taxpayers with no earned income (i.e., it is available to taxpayers who do not work). Full refundability is generally only available to taxpayers who live in the United States for at least half of 2021 (this is sometimes referred to as the "principal place of abode requirement").[9]
- **Increasing the maximum credit amount, with larger increases for younger children:** The law increased the maximum amount of the credit from $2,000 per

[4] All families with three or more qualifying children could also calculate the ACTC using an alternative formula. The alternative formula is the amount by which Social Security taxes paid exceed the earned income tax credit (EITC) up to the maximum refundable credit. Taxpayers could claim whichever ACTC was larger—the ACTC calculated under the earned income formula or under the alternative formula. But for most families who can calculate the ACTC under either formula (i.e., families with three or more qualifying children), the ACTC under the earned income formula was larger than the ACTC under the alternative formula.

[5] See Figure 1 in CRS Report R46502, *The Child Tax Credit: Selected Legislative Proposals in the 116th Congress*.

[6] For more information on the current-law parameters of the child credit after 2025, see CRS Report R41873, *The Child Tax Credit: How It Works and Who Receives It*.

[7] The age of the child for a given year's child credit is based on their age on December 31 of that year. In other words, for the 2021 child credit, a child who is 17 years old on December 31, 2021, is considered 17 years old for the purposes of the credit.

[8] The law also eliminated the calculation of the ACTC under the alternative formula. See footnote 4.

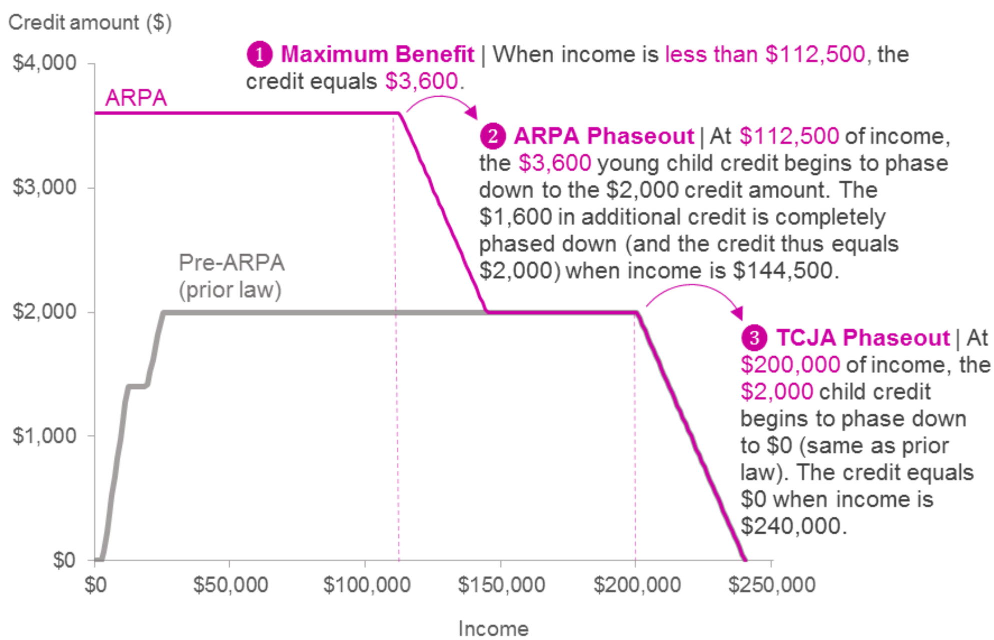
[9] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021.

child to $3,600 per child for a young child (0-5 years old) and $3,000 per child for an older child (6-17 years old).

Full refundability and the larger maximum credit will generally increase the credit amount for low- and moderate-income taxpayers, as illustrated in **Figure 1** (low- and moderate-income taxpayers may also receive a larger credit as a result of expanding the eligibility age to include 17-year-olds). Higher-income families will generally receive the same benefit as under prior law (although some with an eligible 17-year-old may also receive a larger credit).

Figure 1. Child Credit Amount by Income in 2021 Before and After ARPA

Unmarried Taxpayer with One Young Child



Source: CRS calculations based on Internal Revenue Code §24 and P.L. 117-2.

Notes: A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions claimed. Unmarried taxpayers with child credit-qualifying children are assumed in this example to file as head of household. For more examples, see CRS Insight IN11613, *The Child Tax Credit: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*.

Generally, this increase in the maximum child credit—an increase of $1,600 per young child and $1,000 per older child—phases out by $50 for every $1,000 over specified thresholds until the credit amount equals the current-law maximum of $2,000 per child, as illustrated in **Figure 1**. These thresholds are $112,500 for head of household filers and $150,000 for married joint filers.[10] The thresholds are sometimes referred to as the "first thresholds" or "ARPA thresholds." (The actual income level at which the credit phases down to $2,000 per child depends on the number and age of qualifying children.) For many families, the credit then plateaus at its prior-law level

[10] This threshold also applies to surviving spouses as defined in IRC §2(a). In addition, taxpayers who file as married filing separately or taxpayers who file as singles are subject to a $75,000 threshold. Single filers who can only claim a child tax credit-qualifying child under IRC §152(e), but cannot claim that child under IRC §152(c) (and who have no other dependents for tax purposes) generally may not file as a head of household.

of $2,000 per child and phases out when income exceeds the current-law threshold of $200,000 ($400,000 for married joint filers).[11] These thresholds are sometimes referred to as the "second thresholds" or "TCJA thresholds." (The name is in reference to the law—commonly referred to as the Tax Cuts and Jobs Act [TCJA; P.L. 115-97] that established these thresholds.)

ARPA also temporarily changed the way the credit is delivered, advancing half of the total 2021 credit in six monthly payments between July and December 2021 (see "B. Administration of the ARPA-Expanded Child Credit"). The remaining half of the credit can be claimed on 2021 income tax returns filed in 2022.

A3. What features of the credit were unchanged by ARPA?

Aside from changing the credit amount for some taxpayers and advancing a portion of the credit (see "A2. How did ARPA change the child credit?"), ARPA generally left other parameters of the credit unchanged. Notably, these include the definition of a qualifying child and the taxpayer ID requirements of a qualifying child. Specifically, a qualifying child must still meet various requirements including being related to the taxpayer (the relationship test) and living with the taxpayer for more than half the year (the residency test). In addition, the taxpayer must provide a qualifying child's social security number (SSN) associated with work authorization in order to receive the credit.[12]

A4: Can Americans living abroad receive the fully refundable child credit?

Generally, no, although if they owe enough in income taxes they may still benefit from other aspects of the ARPA expansion. In order to receive the full amount of the ARPA-expanded credit (*and* be eligible for the monthly advance payments of the credit in 2021), taxpayers must live in the United States for more than half of 2021 (there is an exception for servicemembers, described in "A5. Are servicemembers stationed overseas eligible for the ARPA-expanded child credit?").[13] Specifically, full refundability only applies to taxpayers whose principal place of abode is the United States for over half of 2021. Taxpayers who do not fulfill this requirement and receive some of all of the credit in the form of the ACTC will generally calculate the ACTC under the earned income formula (15% of earned income above $2,500 not to exceed $1,400 per child).

[11] The law states that up until a taxpayer's income reaches $75,000 if single, $112,500 if head of household, and $150,000 if married filing jointly, they will receive the maximum child tax credit amount. This amount is equal to $3,600 multiplied by the number of qualifying children under six years old, plus $3,000 multiplied by the number of qualifying children 6 to 17 years old. After this "first threshold" (i.e., the "ARPA threshold"), the credit amount begins to phase down by $50 for each $1,000 over the threshold. The amount by which the credit phases down is limited to the lesser of (a) the "applicable credit increase amount" (the difference between the ARPA credit and the prior-law credit in 2021) or (b) 5% of the "applicable phaseout range" (the difference between the $200,000 and $400,000 phaseouts enacted under the TCJA and the $75,000, $112,500, and $150,000 phaseouts in ARPA). Notably, 5% of the applicable phaseout range equals $6,250 if single, $4,375 if head of household, and $12,500 if a married joint filer. After the total credit has been phased down by the lesser of (a) or (b), it then remains at its pre-ARPA level until it is phased out again under the pre-ARPA threshold of $200,000 or $400,000 if married filing jointly (also referred to as the "TCJA threshold").

[12] For more information, see "Definition of a Qualifying Child" in CRS Report R41873, *The Child Tax Credit: How It Works and Who Receives It*.

[13] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021. In the case of the advance payments of the 2021 child credit, the IRS will determine if the taxpayer meets the principal place of abode requirement for the reference year used to calculate the advance amount. In most cases the reference year is 2020, but if a taxpayer has not filed a 2020 return, a 2019 return may be used.

Among married joint filers, only one spouse must fulfill this principal place of abode requirement.[14]

For example, if an otherwise eligible taxpayer lived outside the United States in 2021 with two qualifying young children, they would be eligible for up to $7,200 in the 2021 child tax credit. However, the maximum amount they could claim as the ACTC would be $2,800. If the taxpayer had sufficient income tax liability, they could claim the difference ($4,400) as the nonrefundable portion of the credit and still receive the full benefit amount of $7,200.

A5. Are servicemembers stationed overseas eligible for the ARPA-expanded child credit?

Generally, yes. The principal place of abode requirement for the ARPA-expanded credit is defined by reference to Internal Revenue Code (IRC) Section 32(c)(4), including the special military rule:

> the principal place of abode of a member of the Armed Forces of the United States shall be treated as in the United States during any period during which such member is stationed outside the United States while serving on extended active duty with the Armed Forces of the United States. For purposes of the preceding sentence, the term "extended active duty" means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

A6: Can noncitizens receive the ARPA-expanded child credit?

Yes, in certain cases. Eligibility for the child credit is not explicitly based on a taxpayer's citizenship status or on their qualifying child's citizenship status. However, other parameters of the credit may indirectly limit some noncitizens' ability to receive all or some of the ARPA-expanded credit. These parameters are briefly discussed below.

First, all taxpayers—citizens and noncitizens alike—must live in the United States for more than half of 2021 in order to be eligible for the full refundability provision of the credit.[15] (This is sometimes referred to as the "principal place of abode" requirement for full refundability.)[16] Second, under existing law, a qualifying child must be a U.S. citizen or U.S. national, and if not a U.S. citizen or national, the child must reside in the United States.[17] Finally, a taxpayer must

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[14] The draft IRS Schedule 8812, *Credits for Qualifying Children and Other Dependents*, includes a question on line 13 asking if a taxpayer has a principal place of abode in the United States for more than half of 2021. See https://www.irs.gov/pub/irs-dft/f1040s8—dft.pdf.

[15] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021. Otherwise eligible taxpayers—citizens and noncitizens alike—who do not satisfy this "principal place of abode" requirement are still eligible for the larger credit (up to $3,600 per young child and $3,000 per older child) and are still eligible to claim the credit for 17-year-olds. Hence, in cases where (1) the principal place of abode requirement is not met; (2) the credit amount exceeds their income tax liability; and (3) the taxpayer is claiming some or all of the credit in the form of the ACTC, then the taxpayer will calculate the ACTC using earned income (they may also calculate under the alternative formula if that yields a larger ACTC). In other words, their ACTC will be calculated as 15% of earned income over $2,500 up to $1,400 child.

[16] Among married taxpayers who file a joint return, this "principal place of abode" requirement must be met by at least one spouse. Taxpayers who participate in the credit's advanced payment program also must fulfill this principal place of abode requirement as documented on their 2020 income tax return (or if those data are not available, their 2019 income tax return).

[17] See IRC §24(c)(2). Children are considered to reside in the United States if they pass the tests to be considered a resident alien for tax purposes. For more information, see the answer to question 1 in CRS Report R43840, *Federal Income Taxes and Noncitizens: Frequently Asked Questions*. In addition, whereas all U.S. citizens are considered U.S. nationals, not all nationals are considered citizens. Noncitizen U.S. nationals include persons born in certain U.S.

provide an SSN for each qualifying child in order to claim the benefit.[18] This SSN must be associated with work authorization, meaning an SSN issued solely to receive a public benefit does not qualify. These types of work-authorized SSNs are generally provided to all U.S. citizen children and certain noncitizen children, including legal permanent residents (i.e., "green card holders"), refugees, and asylees.[19] Eligible taxpayers claiming the credit must provide either an SSN or an individual taxpayer identification number (ITIN) to receive the credit. (Individuals who are not eligible to receive an SSN are required to use an individual taxpayer identification number [ITIN] when filing their tax returns and other documents with the IRS.[20])

Hence, a noncitizen taxpayer who (1) lives in the United States for at least half of 2021; (2) has a taxpayer ID (which can be either an SSN issued from the Social Security Administration or, if ineligible for an SSN, an ITIN issued by the IRS); and (3) has a qualifying child with a work-authorized SSN who is either a U.S. citizen or national or who resides in the United States for at least half the year would generally be eligible for the ARPA-expanded child credit.

A7: Can unauthorized noncitizens (sometimes referred to as "undocumented immigrants") receive the ARPA-expanded child credit?[21]

Yes, in certain cases. For the purposes of the child credit, a taxpayer's eligibility to claim the credit is not based on their immigration status. Instead, any noncitizen, irrespective of their immigration status, may generally be able to claim the ARPA-expanded child credit if

1. their principal place of abode for more than half of 2021 is the United States;
2. the taxpayer has either an SSN, or if they are ineligible for an SSN, an ITIN;
3. the taxpayer's child meets all eligibility requirements including that they are a U.S. citizen, a U.S. national, or a resident of the United States; and
4. the taxpayer's qualifying child has an SSN associated with work authorization.

Hence, there could be cases where a noncitizen taxpayer who is "undocumented" or who is not authorized to work in the United States could be eligible for the ARPA-expanded child credit. For example, an "undocumented" noncitizen living in the United States with a U.S. citizen child could be eligible for the ARPA-expanded child credit.

A8. How long are the ARPA changes in effect?

The ARPA changes to the child credit are only in effect for 2021 and only affect the credit as claimed on 2021 income tax returns. The ARPA changes to the credit are themselves layered upon

territories, such as American Samoa.

[18] According to a study by the Pew Research Center, "In 2016, 5.6 million children younger than 18 were living with unauthorized immigrant parents. Of these, 675,000 were unauthorized immigrants themselves." It is unclear what share of those 675,000 children do not have SSNs, nor is it clear how these figures have changed over time. Nonetheless, this estimate may provide a sense of the number of children who cannot be claimed for the child credit under existing taxpayer ID requirements. Jeffrey Passel and D'Vera Cohn, *U.S. Unauthorized Immigrant Total Dips to Lowest Level in a Decade*, Pew Research Center, November 27, 2018, https://www.pewresearch.org/hispanic/2018/11/27/u-s-unauthorized-immigrant-total-dips-to-lowest-level-in-a-decade/.

[19] For more information, see Congressional Distribution Memorandum CD1321564, *Noncitizen Eligibility for a Work-Authorized Social Security Number (SSN)*.

[20] For more information on individual taxpayer identification numbers (ITINs), see CRS Report R43840, *Federal Income Taxes and Noncitizens: Frequently Asked Questions*.

[21] Unauthorized noncitizens include those who have entered the United States without inspection or have overstayed their period of lawful admission (*overstays*). For more information, see CRS In Focus IF11806, *Citizenship and Immigration Statuses of the U.S. Foreign-Born Population*.

other changes in effect from 2018 through 2025, which were enacted by P.L. 115-97 (commonly referred to as the Tax Cuts and Jobs Act or TCJA). Hence, after 2021, the credit is scheduled to revert to prior-law TCJA parameters until 2025. After 2025, the credit would generally revert to its pre-TCJA parameters under current law, as illustrated in **Table 1**.

Table 1. Selected Parameters of the Child Tax Credit Under Current Law

Tax Years Beginning in 2021 or Later

Parameter	2021	2022-2025	2026-
Maximum Credit	$3,600 per child 0-5 years old $3,000 per child 6-17 years old	$2,000 per child 0-16 years old	$1,000 per child 0-16 years old
Maximum Credit for Low-Income Taxpayers (the refundable portion of the child credit, i.e., the additional child tax credit, or ACTC)	$3,600 per child 0-5 years old $3,000 per child 6-17 years old	$1,400 per child 0-16 years old	$1,000 per child 0-16 years old
ACTC Formula	No formula; credit is equal to fixed amount per child and is fully refundable. Taxpayers with no income tax liability and no earned income receive the maximum amount.	15% of earned income above $2,500, not to exceed $1,400 per child.	15% of earned income above $3,000, not to exceed $1,000 per child.
Phaseout Threshold	First or "ARPA" Threshold *(Phaseout of Increased Credit)* • $150,000 MFJ[a] • $112,500 HOH • $75,000 others[b] Second or "TCJA" Threshold_*(Phaseout of Prior-Law Credit)* • $400,000 MFJ • $200,000 HOH & others[c]	$400,000 MFJ $200,000 HOH & others[c]	$110,000 MFJ[d] $75,000 HOH & others[e]
Child ID Requirements	SSN	SSN	SSN or individual taxpayer identification number (ITIN)
Maximum Child Age (at the end of the year)	17	16	16

Parameter	2021	2022-2025	2026-
Method of Receipt	50% advanced; remainder claimed on tax return	Claimed on tax return	Claimed on tax return
Temporary Modification in Effect?	Yes, changes made by the TCJA (P.L. 115-97) and ARPA (P.L. 117-2) in effect	Yes, changes made by the TCJA (P.L. 115-97) in effect	No

Source: CRS analysis of Internal Revenue Code (IRC) §24.

Notes: MFJ = married filing jointly; HOH = head of household. Tax years refer to the year(s) in which a parameter is in effect. For most taxpayers, the 2021 tax year is calendar year 2021, and 2021 tax provisions, including tax credits, are generally claimed on 2021 income tax returns, filed in 2022. In the case of the child credit, at least 50% of the 2021 credit can be claimed on 2021 income tax returns.

a. This includes taxpayers who file as surviving spouses.

b. This includes married taxpayers who file separately and unmarried filers who cannot file as head of household and file as single.

c. This includes married taxpayers who file separately, unmarried filers who cannot file as head of household and file as single, and taxpayers who file as surviving spouses.

d. The threshold for married taxpayers who file separately is $55,000.

e. This includes taxpayers who file as single or as a surviving spouse. (See Internal Revenue Service, *Publication 972*, 2017, p. 3.)

A9. How much is the ARPA expansion of the child credit expected to cost (i.e., the budgetary impact)?

The Joint Committee on Taxation (JCT) estimates that the total cost of the one-year ARPA expansion is $105.1 billion, of which $84.4 billion is attributed to the refundable portion of the credit (i.e., the ACTC).[22] This is in *addition to* the existing cost of the program before ARPA. Prior to the ARPA expansion, the total cost of the child credit was $117.7 billion, according to the IRS's most recent data from 2018 tax returns.[23]

A10: How do taxpayers with children at different income levels benefit from the ARPA-expanded child credit?

Estimates from the Tax Policy Center compiled in **Table 2** suggest that the ARPA-expanded child credit will be a near universally received benefit among taxpayers with children and provide the largest benefit to the lowest-income taxpayers. Overall, the share of taxpayers with children

[22] The Joint Committee on Taxation estimates that the total cost of the one-year ARPA expansion of the child credit is $109.5 billion between FY2021 and FY2031, of which $88.8 billion is attributed to the refundable portion of the credit. These estimates, however, also include the cost of the permanent extension of the child credit to residents of the territories. Unlike residents of Puerto Rico, who are to apply directly for the child credit with the IRS, other territorial residents are to apply for and receive the child credit from their territorial tax authority. The Treasury is to provide these territorial governments with funds to cover these payments. This permanent extension to the territories is effective beginning in 2021 and so applies to the ARPA-expanded child credit. The budgetary cost of this permanent extension is $4.4 billion between FY2023 and FY2031, all of which is attributable to the refundable portion of the child credit. This amount is subtracted from the total cost to isolate the budgetary costs of the one-year expansion. See Joint Committee on Taxation, *Estimated Revenue Effects Of H.R. 1319, The "American Rescue Plan Act Of 2021," Scheduled For Consideration By The House Of Representatives On February 26, 2021*, February 12, 2021, JCX-12-21, https://www.jct.gov/publications/2021/jcx-12-21.

[23] Internal Revenue Service, *Individual Complete Report (Publication 1304), Table 3.3*, Statistics of Income, 2018, https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

receiving the credit will increase from 89.1% to 92.0%, with the largest gains occurring among the lowest-income taxpayers (i.e., the share of such taxpayers receiving the credit will increase from 72.6% to 83.2%). In addition, the lowest-income 20% of taxpayers will also see the largest gains in income, both as a share of their after-tax income and in dollar terms. Specifically, the ARPA-expanded child credit will equal 15.2% of after-tax income for the lowest-income taxpayers ($4,490), compared to 5.6% of their after-tax income prior to ARPA ($1,220).

Table 2. Share of Taxpayers with Children Who Receive the Child Credit and Credit Amount by Income Percentile in 2021, Before and After ARPA

	BEFORE ARPA			AFTER ARPA		
Income Percentile[a]	% of Taxpayers Who Receive the Credit	Benefit as % of After-Tax income	Average Benefit per Taxpayer	% of Taxpayers Who Receive the Credit	Benefit as % of After-Tax income	Average Benefit per Taxpayer
Lowest 20%	72.6%	5.6%	$1,220	83.2%	15.2%	$4,490
Second-Lowest 20%	92.6%	5.8%	$2,560	94.1%	9.6%	$4,940
Middle 20%	97.2%	3.9%	$2,900	97.6%	5.9%	$4,890
Second-Highest 20%	99.2%	2.4%	$2,880	99.2%	3.6%	$4,650
Highest 20%	87.0%	0.7%	$2,140	87.2%	0.8%	$2,720
All	89.1%	2.1%	$2,310	92.0%	3.8%	$4,380

Source: Tax Policy Center Tables T21-0043 and T21-0045, see **Appendix A**.

Notes: Includes filing and nonfiling taxpayers. Includes the $500 nonrefundable tax credit for other dependents. Taxpayers with children are those claiming an exemption for children or with children qualifying for the Child Tax Credit or EITC.

a. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks (in 2020 dollars) are as follows: 20%, $25,500; 40%, $51,000; 60%, $91,100; 80%, $164,300; 90%, $240,900; 95%, $341,700; 99%, $799,100; 99.9%, $3,496,400.

B. Administration of the ARPA-Expanded Child Credit

B1. How is the ARPA-expanded child credit being issued?

Unlike most tax benefits, which are received once a year as a lump sum after an income tax return is filed, up to half of the 2021 child credit is being issued in advance of 2021 returns being filed. ARPA directs the Treasury to issue *half of the estimated 2021 credit* in periodic payments beginning after July 1, 2021 (these periodic payments will generally be equal in amount).[24] The IRS is issuing these payments as monthly installments. Taxpayers can claim the remaining half of the total 2021 credit when filing their 2021 income tax return in early 2022.

[24] IRC §7527A.

Like the expansion of the credit amount, the advance payment program is also temporary under current law. Under ARPA, advance payments of the 2021 credit cannot be made before July 1, 2021, or after December 31, 2021.[25]

B2. How are the monthly advance payments being calculated?

Advance payments of the 2021 child credit are based on *an estimate* of the credit taxpayers are eligible to claim on their 2021 income tax return. In order to estimate a taxpayer's 2021 child credit, the IRS will use data from their 2020 income tax return, or if that is not available, data from their 2019 income tax return. The year of data used to estimate the 2021 credit is sometimes referred to as the "reference year." Since up to half of the 2021 credit can be issued in advance, the IRS will generally calculate 50% of the estimated 2021 credit amount and then issue that in monthly payments.

For example, if a married couple filing jointly listed $75,000 of income and two young children on a 2020 return—and those children would also be young in 2021 (i.e., 0-5 years old)—the IRS will estimate their 2021 credit to be $7,200.[26] The IRS would then issue half of that amount—$3,600—in six monthly payments of $600, beginning July 15, 2021, and ending December 15, 2021.

B3. Can taxpayers opt out of the advance payment program?

Yes, taxpayers can opt out by using the IRS's Child Tax Credit Update Portal (also referred to simply as "the update portal" in this report, or CTC-UP by the IRS).[27] Among married joint filers, both spouses must opt out in order to stop all advance payments (otherwise half of the monthly advance payments will be issued to the spouse who has not opted out).[28] Unless taxpayers opt out, they are automatically enrolled in the advance payment program.

Taxpayers may want to opt out of the advance payments if they prefer receiving the benefit as part of their annual income tax refund. Taxpayers may also want to opt out if they are concerned that they may receive more in advance payments than they are actually eligible for. Broadly, this can occur as a result of differences between information used to issue advanced payments (i.e., 2020 or 2019 tax data) and information on their 2021 income tax return. Specifically, it could occur due to changes in a variety of factors between 2021 and the reference year used to calculate the advance payments, including (a) large changes in income, (b) changes in the number of qualifying children (including in cases were children live with a different divorced parent in

[25] IRC §7527A(f).

[26] See IRC §7527A(b)(1)(D). With respect to estimating the children's ages in 2021 to estimate the advance, "the ages of such children (and the status of such children as qualifying children) are determined for such taxable year by taking into account the passage of time since the reference taxable year." The IRS already receives data from the SSA for tax return processing purposes that includes children's dates of birth, and hence their projected age by December 31, 2021, can be determined.

[27] This tool is available at https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021.

[28] See Question J6 "If I'm married filing jointly, does my spouse also need to unenroll?" and Question J7 "If my spouse unenrolls and I don't unenroll, what will happen?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic J: Unenrolling from Advance Payments,* https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-j-unenrolling-from-advance-payments.

alternating years), (c) changes in marital status, and (d) changes in principal place of abode, or (e) a combination of these changes.[29]

In cases where the sum of advance payments is greater than the credit the taxpayer is eligible to claim on their 2021 income tax return, taxpayers may need to repay the excess, either by reducing their refund or by remitting payment to the IRS (see "B9. Will taxpayers need to pay back excess amounts of the child credit?").

B4. Will the monthly payment amounts be adjusted when the IRS receives new information?

ARPA allows the IRS to adjust monthly payments for new information, such that the total advance a taxpayer receives is 50% of their 2021 credit.[30] For example, if the IRS in August received information through the Child Tax Credit Non-filer Sign-up Tool that a taxpayer was eligible for a 2021 credit of $7,200 and began issuing advance payments in September, this taxpayer could be expected to receive four monthly payments of $900, which in total would equal half of their 2021 credit.[31] (The Child Tax Credit Non-filer Sign-up Tool is also referred to as the child credit non-filer portal in this report. Non-filers can also use the GetCTC tool developed by Code for America in consultation with the Treasury.[32]) Alternatively, in certain situations the IRS may issue different amounts of monthly payments such that the sum of all payments issued in 2021 is 50% of their estimated credit amount (i.e., the taxpayer is "made whole").[33]

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[29] If the taxpayer's principal place of abode is not the United States in 2021, but it is in 2020 (or 2019, if 2020 data are not available), then the refundable portion of their 2021 credit amount will be phased in using the earned income formula. Hence, some low-income taxpayers may not be eligible for the full credit amount of $3,600 per young child and $3,000 per older child, and may receive more in advance payments than they are eligible for. See question G6 "I filed my 2020 tax return with a U.S. address although my child and I do not live in the United States. I received Letter 6417 at my U.S. address stating that the IRS will begin to disburse advance Child Tax Credit payments to me. What can I do?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic G: Receiving Advance Child Tax Credit Payments*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-g-receiving-advance-child-tax-credit-payments.

[30] See IRC §7527A(b)(3), §7527A(a)(3), §7527A(b)(1).

[31] If the 2021 credit is estimated to be $7,200, then half of that—$3,600—can be issued in advance. If the taxpayer received six monthly payments, the payments would thus equal $600 each month. If the taxpayer received four monthly payments, the payments would equal $900 each month. According to the IRS, "Families who did not get a July payment and are getting their first monthly payment in August will still receive their total advance payment for the year. This means that the total payment will be spread over five months, rather than six, making each monthly payment larger." Internal Revenue Service, "IRS: Families now receiving August Child Tax Credit payments; still time for low-income families to sign up," press release, August 13, 2021, https://www.irs.gov/newsroom/irs-families-now-receiving-august-child-tax-credit-payments-still-time-for-low-income-families-to-sign-up.

[32] Code for America's non-filer tool can be found at https://www.getctc.org/en.

[33] This may be the case, for example, when the IRS made an error in issuing the first payments, as was the case with certain ITIN filers. According to the IRS National Taxpayer Advocate, "Over one million taxpayers who filed their returns with an ITIN did not receive their Child Tax Credit (CTC) monthly payment in July. The IRS has identified the issue, which it fixed prior to issuing the August payments; the issue is not anticipated to occur again. But the fix comes with confusion. Since the IRS erroneously did not make the July payment, it calculated the August payment based upon the total amount of eligible AdvCTC and then divided it by five months (August-December). Good news: as of August 23, the IRS is retroactively issuing the July payment to these individuals. However, the July payment amount will be based upon the total amount of eligible AdvCTC divided by six months (July-December) and then reduced by the additional amount included in the August payment.... I will try to simplify by way of an example: Mary has one child and based upon her 2020 income may have a CTC credit of $3,000. One half of that amount, $1,500, would be eligible to be paid in six monthly payments ($250) as AdvCTC. If Mary filed her 2020 return with an ITIN and did not receive her July payment the IRS calculated her August payment based upon a five-month schedule (August-December) and paid Mary $300 in August ($1,500 divided by five payments). Now that the IRS is retroactively paying Mary her July

The statute also allows adjustments to advance payments that would reduce these amounts, for example if a taxpayer provided information that indicated their 2021 credit would be smaller. This may occur when a taxpayer's advance payments are estimated using 2019 tax data, but their 2020 return results in a smaller estimated 2021 credit (and hence smaller advance payments) once it is filed and processed.[34] It may also occur when a taxpayer updates their information with the IRS using the agency's update portal and that information results in a smaller estimated 2021 credit. However, in practical terms, the IRS has stated that it will only be able to accept information in "late summer" that could affect the advance amount. It is unclear if information updated in "late summer" would mean any subsequent adjustments would occur beginning with the October payment, or whether these adjustments would be made later (i.e., reflected with the November or December payments).[35]

B5. Is there an income threshold above which advance payments will *not* be issued?

No, the statute does not include an income threshold above which advance payments will not be issued. (Higher-income taxpayers are eligible for a smaller credit compared to low- and moderate-income taxpayers [see **Figure 1**].) In addition, the IRS has not provided any indication that it would be treating higher-income taxpayers differently than low- and moderate-income taxpayers for purposes of advance payments. Like all taxpayers, higher-income taxpayers may elect to opt out of receiving advance payments using the update portal (see **Appendix C** for more information).

payment, she will be receiving $250 for the July payment based upon a six-month schedule (July-December, $1,500 divided by six payments) minus the additional $50 she received in August. Her July payment will be $200. Now to add to Mary's confusion, the IRS will be issuing the September payment in the correct amount of $250. All subsequent payments should be $250." Taxpayer Advocate Service, "NTA Blog: Advance Child Tax Credit: What You Should Know: Part II," August 26, 2021, https://www.taxpayeradvocate.irs.gov/news/nta-blog-advance-child-tax-credit-what-you-should-know-part-ii/.

[34] See, for example, the answer to question E4 "My 2019 tax return was used to determine my advance Child Tax Credit payments. I recently filed my 2020 tax return with a different amount of income. Will the IRS update my advance Child Tax Credit payment amounts?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic E: Advance Payment Process of the Child Tax Credit*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-e-advance-payment-process-of-the-child-tax-credit#e1#e1.

[35] In late summer, the IRS has stated that taxpayers will be able to "make changes to your dependents, marital status and income and re-enroll if you previously unenrolled." Prior to that, the update portal could be used to unenroll from advance payments, make changes to bank information, and update address information. See the answer to question A16 "When will I be able to update my information?" at Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic A: General Information*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-a-general-information#a16#a16. In addition, changes to the update portal must be made three days before the first Thursday of the next month in order to apply to the following month's payments. For example, information updated by August 30, 2021, will be reflect on the September payments, issued on September 15, 2021. Information updated after August 30, 2021, but by October 4, 2021, will be reflected in the October payment issued October 15, 2021. See the answer to question J2 "What is the deadline to unenroll or make changes to my bank information?" at Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic J: Unenrolling from Advance Payments,* https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-j-unenrolling-from-advance-payments.

B6. Will otherwise eligible households who, due to their low incomes, do not normally file a tax return, automatically receive the advance payments?

No, the IRS must have information from a 2020 or 2019 income tax return in order to calculate the estimated 2021 credit amount, and then issue advance payments. (The IRS will also issue payments to taxpayers who used the non-filer portal to receive the first "stimulus check" payment in 2020.) Eligible recipients who are generally not required to file an income tax return due to their low incomes are encouraged to use the child credit non-filer portal to provide the necessary information to issue advance payments.[36] If taxpayers do not receive any advance payments in 2021, but are eligible for the 2021 credit, they will generally receive the entire amount of the credit when they file their 2021 income tax return. (However, if the taxpayer is subject to offset, the credit they receive with their 2021 tax return could be reduced; see "B11. Can the advance payments of the credit and/or the credit claimed on 2021 income tax returns be reduced for child support or other debts?")

B7. Are there any limitations on how the advance payments of the credit may be spent?

No, there are no limitations or restrictions on how the advance payments (or the amount received after filing 2021 income tax returns) may be spent. (Data from the Census Household Pulse Survey indicate that food, utilities, and clothing were the most common items the first advance payments were spent on.)[37]

B8: How will taxpayers determine the amount of the credit they can claim on their 2021 income tax return?

When a taxpayer files their 2021 return (in 2022), they will first calculate the total amount of the 2021 child credit they are eligible for (based on the number of qualifying children, income, and marital status for 2021). Then, the taxpayer will subtract from their total 2021 credit the sum of advanced child credit payments they received during calendar year 2021. To help with this calculation, the IRS will mail a year-end summary statement (Letter 6419) to all taxpayers who received advance payments during 2021.

For example, if an unmarried taxpayer had two young children (and filed as a head of household) and less than $112,500 of income *in 2020 and 2021*, they would be eligible for a total child credit for 2021 of $7,200. Since they would have received half of their total 2021 credit in advance payments in calendar year 2021 ($3,600), they would ultimately claim the remaining half ($3,600) on their 2021 return. The taxpayer is effectively splitting their total credit between the advance payments they receive in 2021 (50% of their total credit) and the remaining 50% of the credit they claim on their 2021 tax return.

[36] The tool is available at https://www.irs.gov/credits-deductions/child-tax-credit-non-filer-sign-up-tool. Taxpayers can also use the Code for America non-filer tool at https://www.getctc.org/en. Code for America's tool was developed in consultation with Treasury. Unlike the IRS tool, the Code for American tool works on mobile devices. and is available in Spanish.

[37] U.S. Census Bureau, *Week 34 Household Pulse Survey: July 21-August 2*, Table 1. Child Tax Credit Payment Status and Use, by Select Characteristics, August 11, 2021, https://www.census.gov/data/tables/2021/demo/hhp/hhp34.html.

B9. Will taxpayers need to pay back excess amounts of the child credit?

Potentially, yes, if they receive more in advance payments than they are eligible to claim on their 2021 income tax returns. A taxpayer may have excess amounts of the credit due to changes in income, marital status, or number of qualifying children between the year used to estimate the advance (2020 or 2019) and 2021. For example, if a taxpayer's estimated advance payments totaled $5,400 (based on an *estimate* of three qualifying young children) but the total 2021 credit they are actually eligible for is $3,600 (because they only had one qualifying young child), they would need to repay up to $1,800 (the difference between $5,400 and $3,600).[38] Excess payments caused by *changes in the number of qualifying children* generally will not need to be repaid for lower- and moderate-income taxpayers who are protected by a safe harbor (this safe harbor decreases as income rises). For more information on the safe harbor, see "B10. How does the "safe harbor" work?" and **Table D-1**. Repayment may either reduce a taxpayer's 2021 tax refund or result in the taxpayer being required to remit payment to the IRS (or be subject to offset of a future tax refund).

B10. How does the "safe harbor" work?

Lower- and moderate-income taxpayers who receive excess advance payments of the credit due to *changes in the number of qualifying children between 2021 and 2020* (or 2019, if 2020 data are unavailable) may be protected from paying back some or all of these excess payments due to a safe harbor. Effectively, after calculating any excess payments, the taxpayer subtracts from this amount the total safe harbor amount they are eligible for to determine any amount they must ultimately repay (either in terms of reducing their tax refund or remitting payment).

The safe harbor amount is first calculated by multiplying $2,000 times the difference in the number of qualifying children between the reference year (2020 or 2019) and 2021. This is the maximum amount of the safe harbor. The safe harbor amount is then phased down ratably—that is, proportionally—for head of household filers with 2021 income between $50,000 and $100,000 and for married joint filers with 2021 income between $60,000 and $120,000.

For example, if a married taxpayer's estimated advance payments issued in 2021 totaled $5,400 (based on an *estimate* of three qualifying young children) but the total 2021 credit they are actually eligible for is $3,600 (because they only had one qualifying young child), their excess payments would equal $1,800. If the taxpayer's 2021 income was $75,000, they would be eligible for a $3,000 safe harbor.[39] Since their safe harbor ($3,000) is greater than their excess payment amount ($1,800), the taxpayer would *not* need to repay the excess amount. For more information on the safe harbor, see **Table D-1**.

The safe harbor does not apply in cases where excess payments arise from changes in income, marital status, or principal place of abode between the reference year and 2021.

[38] Three young children x $3,600 per young child = a maximum credit of $10,800. Since up to 50% of the credit can be issued in advance payments, the maximum amount of advance payments equals $5,400.

[39] The maximum safe harbor they would be eligible for would be $4,000 ($2,000 times the next difference in the number of qualifying children, which is two in this example.) The taxpayer's income places them in the phaseout range of the safe harbor and their maximum safe harbor would be reduced by 25% [=($75,000-$60,000)/($120,000-$60,000)] from $4,000 to $3,000.

B11. Can the advance payments of the credit and/or the credit claimed on 2021 income tax returns be reduced for child support or other debts?

The advance payments of the child credit are generally exempt from offset for certain past-due debts the recipient owes (including past-due child support).[40] In other words, the monthly advance payments issued in 2021 *will not* be reduced for these debts before they are issued by the Treasury. However, the portion of the credit claimed on 2021 income tax returns *is subject to offset*. In practical terms, that means that when a taxpayer files their 2021 tax returns next year and claims the remaining portion of the 2021 child credit, the portion of their 2021 tax refund attributable to the child credit can be offset.

In addition to the offset mechanism—which effectively reduces a government payment *before* it is issued by Treasury—creditors may also recoup past-due debts through garnishment and levy actions. Practically, these occur *after* a payment is issued (e.g., deposited in a bank account). There are no statutory provisions at the federal level that protect the child credit—received either as advance payments or claimed on an income tax return—from garnishment or levy actions.

B12. Does receipt of the credit—either in the form of advance payments or claimed on a tax return—affect eligibility for other government programs?

No, receipt of the child credit will not affect eligibility for or the amount of other federally funded government programs. Under a permanent provision of the Internal Revenue Code, tax credits, including the child tax credit—whether received as advance payments or claimed on an income tax return—do not count as income or resources for a 12-month period in determining eligibility for, or the amount of assistance provided by, any federally funded public benefit program.[41]

B13. Is the ARPA-expanded child credit—either in the form of advance payments or claimed on a tax return—taxable?

No, the child credit is not subject to federal taxation, but in some cases, the expanded credit may affect state liabilities.[42] At the federal level, tax credits, including the ARPA-expanded child credit, are not considered taxable income. This is the case regardless of whether the credit is claimed on a tax return or issued as advance payments.

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[40] In this report, the term *offset* refers to the Treasury Offset Program, which "collects past-due (delinquent) debts (for example, child support payments) that people owe to state and federal agencies." For more information, see Bureau of Fiscal Service, *Treasury Offset Program*, https://fiscal.treasury.gov/top/.

[41] IRC §6409.

[42] In some cases, the expanded child credit may affect state liabilities, as discussed in a report by Elaine Maag and David Weiner of the Tax Policy Center: "Although Oklahoma is the only state where taxpayers will benefit from its links to the federal CTC, it is not the only state with taxpayers who will be affected by the federal change. About 1 million households across other states will see their state income taxes increase as their federal income taxes drop from the larger CTC. Three-quarters of those taxpayers are in states with a federal income tax deduction. That is, these states allow taxpayers to reduce their taxable income by the amount of their federal income tax bill. If federal taxes drop, more income will be taxed at the state level. Other interactions between federal and state laws cause the state tax increase for other households. For example, some states limit certain state credits to federal tax liability. With lower federal tax liability because of the expanded CTC, households can claim less in state credits. This can occur, for example, in Maryland and New York." Elaine Maag and David Weiner, *How Increasing the Federal EITC and CTC Could Affect State Taxes*, Tax Policy Center, April 22, 2021, p. 7, https://www.taxpolicycenter.org/publications/how-increasing-federal-eitc-and-ctc-could-affect-state-taxes/full.

B14. Is the Treasury updating wage withholding schedules to reflect that up to half of the credit is being issued as advance payments before 2021 tax returns are filed?

No, the Treasury is *not* automatically updating the amount of income taxes withheld from workers' paychecks to take into account that up to half of the 2021 credit will be issued in advance (and hence not claimed on 2021 income tax returns). Taxpayers can manually adjust their withholding, for example by updating their IRS Form W-4 with their employer.

C. Territorial Residents and the Child Credit

C1. Did territorial residents receive the child credit *before* ARPA?

It is unclear whether and to what extent residents of territories received the child credit before ARPA. But available information suggests that the credit they received prior to ARPA was generally *less* than the amount received by residents of the United States in similar circumstances (i.e., same marital status, income, and number of children).

Puerto Rico's income tax does not include a child credit. Prior to ARPA, residents of Puerto Rico with three or more children could receive the additional child credit (ACTC) under the "alternative formula."[43] (The ACTC is the amount of the credit that is greater than income taxes owed, and is also referred to as the "refundable portion" of the credit.) Under the alternative formula, the ACTC effectively equals 7.65% of earned income up to the maximum ACTC per child, which was $1,400 per child before ARPA. Puerto Rican residents applied for the ACTC under the alternative formula directly with the IRS. The alternative formula is, in most cases, less generous than the ACTC calculated under the earned income formula.[44] Because only families with three or more children could receive the ACTC under the alternative formula, Puerto Rican families with one or two children did not receive the ACTC.

While the territorial governments of American Samoa and mirror-code territories may have had child credits under their own internal tax laws, it is unclear whether and to what extent these territorial governments paid out these credits from local funds.[45] Like residents of Puerto Rico, residents of these territories with three or more children could generally receive the ACTC under the alternative formula (and hence families with fewer than three children could not receive the ACTC). Unlike residents of Puerto Rico, residents of American Samoa, Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and the United States Virgin Islands

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[43] Throughout this report, the discussion of residents of U.S. territories will be of *bona fide residents* of these territories. According to the Joint Committee on Taxation, "[a] bona fide resident of a territory for a taxable year is generally an individual (1) who is present for at least 183 days during the taxable year in the territory, and (2) who does not have either a tax home outside the territory or a closer connection to the United States or a foreign country than to the territory.... Broadly, a bona fide individual resident of a territory is exempt from U.S. tax on income derived from sources within that territory but is subject to U.S. tax on U.S.-source and non-territory-source income." Further, this discussion generally focuses on territorial residents who are not required to file a federal income tax return, and hence do not receive the child credit with the federal income tax return.

[44] Under the earned income formula, the ACTC is calculated as 15% of earned income above $2,500, up to the maximum ACTC per child of $1,400. Beginning in 2026, the formula is scheduled to be 15% of earned income above $3,000 up to a maximum of $1,000 per child.

[45] A mirror code territory is a territory whose own territorial tax law is effectively the U.S. Internal Revenue Code (IRC) with the territory's name substituted for the United States wherever the term United States is used in the IRC (i.e., it is a "mirror" of the IRC).

(USVI) applied for the ACTC with their territorial governments, with the IRS issuing aggregate payments to the respective territorial governments to cover the costs of the child credit (sometimes referred to as a "cover-over" payment).[46] (See **Table E-1**.)

C2. How did ARPA change the child credit for territorial residents in 2021?

Broadly, ARPA provides clarity on both the amount of the credit territorial residents can receive and the federal funding to cover the cost of this benefit permanently, including for 2021. ARPA generally allows territorial residents to receive the entire amount of the ARPA-expanded credit.[47] Residents of Puerto Rico will be eligible to receive the ARPA-expanded child credit when they file a 2021 tax return directly with the IRS.[48] Residents of American Samoa can receive the full amount of the ARPA-expanded child credit. If American Samoa has an approved plan to distribute these payments, then the Treasury is directed to provide the American Samoan government funds to cover their full cost, and the American Samoan government will pay out the benefit to its residents. Otherwise, residents of American Samoa will be able to file a return with the IRS to directly claim the benefit. Residents of mirror-code territories can receive the full benefit of the ARPA-expanded child credit. Residents of mirror-code territories will receive the benefit from their respective territorial governments, with the U.S. Treasury directed to provide each government with a "cover-over" payment for the total cost of the benefit. (See **Table E-1**.)

C3. Will territorial residents receive the advance payments of the 2021 credit?

No, territorial residents will not receive advance payments from the U.S. Treasury. Residents of Puerto Rico, who receive their child credit payments directly from the IRS, are ineligible to participate in the federal advance payment program. Hence, they will receive the full benefit when they file a 2021 tax return with the IRS in early 2022.

If American Samoa and mirror-code territorial governments elect to advance the 2021 ARPA-expanded credit directly to their residents in a manner similar to the federal advance program, the law provides that Treasury will provide these governments with an additional $300,000 per territory for the associated administrative costs (in addition to the amounts to cover the aggregate costs of the benefit itself).[49]

C4. How did ARPA change the child credit for territorial residents after 2021?

Broadly, ARPA provides clarity on both the amount of the benefit territorial residents can receive and the federal funding to cover the cost of this benefit permanently—that is, *after 2021*. Residents of Puerto Rico—irrespective of the number of children they have—will be eligible to receive the ACTC under the alternative formula, applying for this benefit directly with the IRS. If American Samoa has an approved plan to distribute to its residents child credit amounts—both

[46] The IRS Chief Financial Officer (CFO) made these aggregate payments to territorial governments prior to ARPA.

[47] For more information, see Taxpayer Advocate Service, *TAS Tax Tip: 2021 Advance Child Tax Credit information for U.S. Territory residents,* August 25, 2021, https://www.taxpayeradvocate.irs.gov/news/tas-tax-tip-2021-advance-child-tax-credit-information-for-u-s-territory-residents/.

[48] IRS Form 1040-SS or IRS Form 1040-PR.

[49] For example, the governor of the Commonwealth of the Northern Mariana Islands issued a press release stating that its local tax authority, the Department of Finance, Division of Revenue and Taxation (DRT), is implementing a plan. Office of the Governor of the Commonwealth of the Northern Mariana Islands, "DRT planning for advanced payments of the Expanded Child Tax Credit," press release, May 13, 2021, https://governor.gov.mp/news/press-releases/drt-planning-for-advanced-payments-of-the-expanded-child-tax-credit/.

the refundable portion (i.e., the ACTC) and the nonrefundable portion—that reflect those in the Internal Revenue Code (IRC) for a given year, then Treasury is directed to provide the American Samoan government funds to cover the full cost of this credit.[50] If no such plan is in effect, American Samoan residents may apply directly with the IRS like Puerto Rican residents (i.e., they can apply directly with the IRS for the ACTC under the alternative formula, disregarding the limitation for three or more children). Residents of the mirror-code territories can receive child credit amounts—both the refundable portion (i.e., the ACTC) and the nonrefundable portion—that reflect those in the Internal Revenue Code (IRC) for a given year. Treasury is directed to provide these governments funds to cover the full cost of this credit. (See **Table E-1**.)

[50] This includes the refundable portion of the child credit—the ACTC—calculated under the earned income formula.

Appendix A. Selected Research on the ARPA-Expanded Child Credit

A variety of research studies have evaluated the effects of the ARPA-expanded child credit, either as a standalone provision or in combination with other provisions.[51] A selection of these studies is provided in this appendix. In some cases, these studies examined the impact of the ARPA-expanded credit if it were to be permanent or extended as part of the Biden Administration's American Families Plan.

I. Poverty and Financial Wellbeing

Table A-1 provides a selected list of studies that examine the ARPA-expanded child credit's impact on poverty as a standalone provision. Of note, in 2019, the National Academy of Sciences released a study evaluating the poverty reduction impact of a child allowance similarly structured to the ARPA-expanded child credit.[52]

Table A-1. Selected Research on the ARPA-Expanded Child Credit's Impact on Poverty and Financial Wellbeing

Study	Date Issued	Major Impact/Outcome Evaluated	Notes
Jain Family Institute, *Assessing Non-filer Rates & Poverty Impact for the American Rescue Plan Act's Expanded CTC*, by Jack Landry and Stephen Nuñez	September 8, 2021	**Child poverty:** Simulated estimates of child poverty rates of the ARPA-expanded child credit under different assumptions about how many eligible non-filing households receive the benefit.	"Our analysis conservatively estimates that upwards of 6.4 million eligible children will not receive the benefit, resulting in an estimated child poverty reduction of 11 to 18 percent, and a 92 percent take-up rate. We do not know exactly who these children are, but we find a substantial portion—at least 71 percent—receive other government benefits, meaning that better data sharing between state and federal benefits agencies could offer a crucial avenue for enrollment. Greater enrollment could dramatically increase the child poverty reduction, up to 40 percent."

[51] For example, see Zachary Parolin et al., *The American Rescue Plan could cut child poverty by more than half*, Center on Poverty and Social Policy at Columbia University, March 11, 2021, https://www.povertycenter.columbia.edu/news-internal/2021/presidential-policy/biden-economic-relief-proposal-poverty-impact. Or for a comparison of the average value of all child tax benefits in 2021 by proposal, see Table 8 in Alex Brill, Kyle Pomerleau, and Grant M. Seiter, *The Tax Benefits of Parenthood: A History and Analysis of Current Proposals*, American Enterprise Institute, February 2021, https://www.aei.org/research-products/report/the-tax-benefits-of-parenthood-a-history-and-analysis-of-current-proposals/.

[52] National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, 2019, https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

Study	Date Issued	Major Impact/Outcome Evaluated	Notes
Columbia's Center on Poverty and Social Policy, *The Initial Effects of the Expanded Child Tax Credit on Material Hardship,* by Zachary Parolin et al.	August 30, 2021	**Food Insufficiency:** Researchers estimated the impact of the first monthly CTC payment (i.e., the July payment) on food insufficiency based on data from the U.S. Census Bureau's Pulse Survey. The survey asks respondents: "In the last 7 days, which of these statements best describes the food eaten in your household?" Respondents who choose the answers "Sometimes or often not enough to eat" are considered to be food insufficient. **Other Material Hardship Indicators:** Researchers also estimated the impact the first monthly CTC payment had on other hardship indicators, including difficultly with paying for usual household expenses and whether the household is on time with rent or mortgage payments (See Table 1 of the Columbia Center on Poverty and Social Policy report).	"Our findings offer three primary conclusions regarding the initial effects of the first monthly CTC payment delivered mid-July 2021. First, the July 2021 CTC payment strongly reduced food insufficiency among low-income households with children; a $100 increase in CTC benefits (adjusted for household-size) is associated with a 7-percentage point, or roughly 25 percent, decline in food insufficiency among low-income families who report receipt of the CTC. Second, the effects of the first CTC payment on food insufficiency are concentrated among households with annual incomes of less than $35,000. Third, increasing the coverage rate of the CTC is critical for further reducing material hardship."
Columbia's Center on Poverty and Social Policy, *Monthly Poverty Rates Among Children after the Expansion of the Child Tax Credit,* by Zachary Parolin et al.	August 20, 2021	**Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in July 2021, after the first advance payment of the child credit (July 2021). These estimates are also provided by race/ethnicity. Primary estimates assume that about 60 million children live with taxpayers who receive the credit, while the maximum number of children who live in credit-eligible households is estimated to be up to 67 million. The authors also simulate a range of monthly child poverty rates under varying levels of CTC receipt (providing estimates that range from around 56 million to around 67 million children receiving the benefit).	"The monthly child poverty rate fell from 15.8 percent in June to 11.9 percent in July 2021.... This drop in child poverty is primarily due to the first payment of the expanded Child Tax Credit, which on its own kept approximately 3 million children from poverty in July; without it, the monthly child poverty rate would have been 4.1 percentage points (or 25.6 percent) higher [i.e., would have been 15.9% in July]."
U.S. Census Bureau, *Economic Hardship Declined in Households with Children as Child Tax Credit Payments Arrived*, by Daniel J. Perez-Lopex	August 11, 2021	**Food Insufficiency:** The percentage of adults experiencing food insufficiency (sometimes or often not having enough to eat) before and after receipt of the first advance child credit payments in July 2021. **Financial Hardship:** The percentage of adults having difficulty paying expenses before and after receipt of the first advance child credit payments in July 2021.	"The survey shows introduction of the [advanced] CTC coincided with a drop in food insufficiency in households with children [from 11% to 8.4%]. It also showed that in those households, there was a drop in difficulty paying weekly expenses [from 31.5% to 29.0%]."

Study	Date Issued	Major Impact/Outcome Evaluated	Notes
Urban Institute, *How a Permanent Expansion of the Child Tax Credit Could Affect Poverty*, by Gregory Acs and Kevin Werner	July 29, 2021	**Child Poverty**: Simulated child poverty rates and the number of children in poverty measured using the SPM during a nonrecessionary economy (2018 data used). Child poverty statistics broken down by race/ethnicity, metropolitan and nonmetropolitan areas, states, race, and ethnicity. **Other Impacts:** Information on changes in family income is also provided.	"Expanding the CTC would reduce child poverty by 5.9 percentage points, from 14.2 to 8.4 percent (rounded to the nearest tenth), using 2018 as a benchmark for a typical year. That means 4.3 million fewer children would be in poverty in a typical year, representing over a 40 percent decrease in child poverty."
Congressional Research Service, *The Child Tax Credit: Impact of the American Rescue Plan Act (ARPA; P.L. 117-2) Expansion on Income and Poverty*, by Margot Crandall-Hollick, Jameson Carter, and Conor Boyle	July 13, 2021	**Child Poverty:** Simulated child poverty rates measured using the SPM during a nonrecessionary economy (2016-2018 data used). Child poverty rates are broken down by race/ethnicity. **Other Impacts:** Information on poverty rates of individuals who live in families with children, changes in family income, and percentage of families receiving the credit is also provided.	"CRS estimates that in a nonrecessionary economy, the ARPA expansion of the child credit will result in nearly all families with children including the lowest-income families with children, receiving the child credit [from 84% of all families with children receiving the credit before ARPA, to 96% after ARPA].... the estimates also indicate that the largest share of new recipients will be the poorest families [from 52% of poor families with children receiving the credit before ARPA to 94% after ARPA]. CRS's analysis indicates that the largest increases in income are estimated to occur among poor families with children, substantially reducing the prevalence of child poverty [i.e., the child poverty rate is estimated to fall from 13% to 7%] and the depth of poverty among families with children [i.e., the poverty gap is estimated to fall by 40%]."
Urban Institute, *2021 Poverty Projections: Assessing the Impact of Benefits and Stimulus Measures,* by Laura Wheaton, Linda Giannerelli, and Ilhman Dehry (This is an update of a March 2021 analysis.)	July 2021	**Poverty:** Number of people in 2021 lifted out of poverty by age using the SPM (projected 2021 data). Estimates of the impact of the advanced child credit can be found in Table 6 of the Urban report. This study also estimates the poverty impact of COVID-19 policies in combination.	For this analysis, the Urban Institute models only the benefits received in 2021—that is, the advance of the child credit, which is one-half of the total credit amount. This study finds that the advanced child credit will lift 1.8 million people out of poverty in 2021, of which 1 million are children (under 18 years old); (see Table 6 of the Urban report).

Study	Date Issued	Major Impact/Outcome Evaluated	Notes
Center on Budget and Policy Priorities (CBPP), *Congress Should Adopt American Families Plan's Permanent Expansion of Child Tax Credit and EITC, Make Additional Provisions Permanent*, by Chuck Marr et al.	May 24, 2021	**Child Poverty**: The simulated reduction in child poverty rates measured using the SPM during a nonrecessionary economy (2016-2018 data used). Reductions in child poverty rates are broken down by race/ethnicity for each state. **Other Impacts:** Number and percentage of children (poor and nonpoor) who would benefit is also provided by race/ethnicity for each state.	"The full Families Plan's Child Tax Credit would lift an estimated 4.1 million children above the poverty line, of whom 1.6 million are Latino, 1.2 million are white, 930,000 are Black, and 132,000 are Asian.... Of the roughly 9.9 million children it would lift above *or closer to* the poverty line, 3.8 million are Latino, 2.9 million are white, 2.1 million are Black, and 426,000 are Asian. These changes would reduce the number of children in poverty by more than 40 percent nationally."
American Enterprise Institute (AEI), *Unintended consequences: Democrat's child tax credit will cost jobs*, by Alex Brill and Kyle Pomerleau	April 22, 2021	**Employment:** Simulated estimates of the impact of the ARPA-expanded child credit on employment.	"We analyzed the impact of a permanent CTC expansion on employment using AEI's Tax-Calculator along with an employment model and set of assumptions from the Congressional Budget Office (CBO). According to our calculation, the likely impact of the CTC expansion on employment will be 296,000 full-time equivalent jobs lost (+/- 155,000). This is due to both the elimination of the phase-in and the phase-out of the larger benefit."

Source: CRS.

II. Estimates of the Number of Children, Families, and Taxpayers Receiving the ARPA-Expanded Child Credit

Children

By State

- The Center on Budget and Policy Priorities (CBPP) has estimated the number of children who would be affected by the permanent extension of the ARPA-expanded child credit: by **state** (Appendix Table 1) and by **state and race/ethnicity** (Appendix Table 4). CBPP has also estimated the reduction in child poverty by **race and ethnicity** from a permanent expansion of the ARPA-expanded child credit (Appendix Table 3).
- CBPP also conducted a comparable analysis of the impact of the temporary ARPA expansion of the child credit.

By Congressional District

- Representative DeLauro's office has provided estimates of the number of children impacted by the ARPA-expanded child credit by congressional district (methodology can be found here).

Families

By State

- CRS estimated the number of families eligible for the ARPA-expanded child credit. Families may include more than one taxpayer. See CD1326941, *State-Level Estimates of Eligibility for the Expanded Child Tax Credit Included in the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*, by Conor F. Boyle, Jameson A. Carter, and Margot L. Crandall-Hollick, available to congressional clients upon request from the authors.
- The Niskanen Center has also published estimates of the state-level impact of the child credit (in addition, it has provided estimates by metropolitan and nonmetropolitan areas in states, as well as national estimates by households' race and ethnicity). These accompany a report by the Niskanen Center on the economic and community impact of the credit.

By Congressional District

- The Niskanen Center has also published estimates of the county-level impact of the expanded child credit. These accompany a report by the Niskanen Center on the economic and community impact of the credit.

Taxpayers

- The Tax Policy Center (TPC) has estimated the percentage of taxpayers who benefit from the child tax credit in 2021 after the ARPA expansion, by income level (Table T21-0044) and by income percentile (Table T21-0045) at the national level. Note that TPC's analysis is by "tax units" in which a tax unit is everyone listed on an income tax return; includes filing and nonfiling units. *Tax unit* is generally used synonymously with the term *taxpayer*.
  - Estimates in Table T21-0044 can be compared to the benefit from the pre-ARPA credit in 2021 in Table 21-0042 to estimate the impact of the ARPA-expanded credit by income level.
  - Estimates in Table 21-0045 can be compared to the benefit from the pre-ARPA credit in 2021 in Table T21-0043 to estimate the impact of the ARPA-expanded credit by income percentile.
- The Treasury is providing data on the number of taxpayers receiving the advanced payment of the credit by state as well as the total amount received by taxpayers in each state. See "Treasury Data on Advance Payments" in **Appendix C**.

III. Estimates of How Families/Taxpayers Spent the Child Credit

- U.S. Census Bureau, August 11, 2021: "Many HPS [Household Pulse Survey] respondents reported spending their CTC payments on more than one thing. About 47% reported spending it on food. Nearly 10% of adults in households that received the CTC—and 17% of those with at least one child under age 5—spent their CTC on child care." More details can be found in the Detailed Tables: Child Tax Credit Table.

Appendix B. Congressional Resources

House Ways and Means Committee

- Ways and Means Committee, "Markup of the Build Back Better Act," September 9, 2021-September 15, 2021
- One-pager on IRS child tax credit portals, June 10, 2021
- Child tax credit portals FAQs, June 10, 2021
- Subcommittee on Select Revenue Measures hearing, "Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy," May 12, 2021
- Subcommittee on Oversight hearing on the 2021 filing season, March 18, 2021

House Appropriations Committee

- Subcommittee on Financial Services and General Government hearing on Treasury Oversight, May 27, 2021

House Financial Services Committee

- Subcommittee on Consumer Protection and Financial Institutions hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System," July 21, 2021

Senate Finance Committee

- Full committee hearing on the President's FY2022 budget, June 16, 2021
- Full committee hearing on the IRS's FY2022 budget, June 8, 2021
- Full committee hearing, "Combating Inequality: The Tax Code and Racial, Ethnic, and Gender Disparities," April 20, 2021
- Full committee hearing, "The 2021 Filing Season and 21st Century IRS," April 13, 2021

Senate Banking, Housing, and Urban Affairs Committee

- Subcommittee on Financial Institutions and Consumer Protection hearing, "Protecting Consumers from Financial Fraud and Scams in the Pandemic Recovery Economy," August 3, 2021
- Full committee hearing, "American Rescue Plan: Shots in Arms and Money in Pockets," March 25, 2021

Appendix C. IRS and Treasury Resources on the ARPA-Expanded Child Credit for 2021

IRS Resources for Taxpayers

- All information from the IRS on the child tax credit and the advance payments of the child tax credit—including Frequently Asked Questions, Tax Tips, Outreach Assistance, and news releases—can be found on the IRS resource page.
- **Non-filer Portal:** Eligible non-filers can use the IRS Child Tax Credit Non-filer Sign Up Tool to receive advance payments.[53]
  - Code for America, in partnership with the IRS and Treasury, has launched a simplified portal at GetCTC.org (the portal works on mobile devices and is also available in Spanish).[54]
- **Update Portal:** Eligible taxpayers who want to update information with respect to advance payments or opt out of advance payments can use the IRS Child Tax Credit Update Portal.

Treasury Data on Advance Payments

Treasury has provided data on advance payments of the 2021 child credit by state:

- Advance Child Tax Credit Payments Disbursed August 2021, by State
- Advance Child Tax Credit Payments Disbursed July 2021, by State

Treasury Office of Tax Analysis (OTA) Studies

- Treasury's Office of Tax Analysis (OTA) has estimated the number of taxpayers who would benefit from the child credit in 2022, under current law (i.e., the ARPA changes expiring at the end of 2021), and under the Biden Administration's proposal (i.e., if the ARPA changes were in effect in 2022). These analyses include estimates of the number of taxpayers that will benefit, the total dollar amount of the benefit, and the average benefit per taxpayer broken down by adjusted gross income (AGI). Detail on the Biden Administration proposal can be found in the FY2022 Treasury Greenbook.

[53] Links to all IRS tools for the advanced payment of the 2021 child credit can be found at https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021.

[54] See Chris Riotta, "Treasury taps Code for America for tax credit tool," *FCW*, August 13, 2021, https://fcw.com/articles/2021/08/13/getctc-code-for-america-treasury.aspx?m=1. "Wally Adeyemo, deputy secretary of the Treasury, said in a statement on Friday the agency was working with Congress to create a permanent signup tool allowing America's most vulnerable families—those who do not earn enough income to file taxes annually—to access the expanded CTC program. The administration said it would partner with the civic technology non-profit Code for America to release an initial version of that platform in order to more quickly enroll new families."

IRS National Taxpayer Advocate

- The IRS National Taxpayer Advocate published three blog posts in late August 2021 on the advanced monthly payments of the ARPA-expanded child credit.
    - "Advance Child Tax Credit: What You Should Know: Part I," which "addresse[s] ten things that individuals should know about the Advance Child Tax Credit (AdvCTC)";
    - "Advance Child Tax Credit: What You Should Know: Part II," which "focus[es] on issues experienced by taxpayers with Individual Taxpayer Identification Numbers (ITINs) and the issuance of paper checks versus direct deposits for the August payment"; and
    - "Advance Child Tax Credit: What You Should Know: Part III," which "explain(s) how AdvCTC tools work, including ID.me, and will discuss the struggles some taxpayers are facing in receiving their AdvCTC."

Treasury and IRS Press Releases

- IR-2021-171, August 20, 2021, "Child Tax Credit: New update address feature available with IRS online portal; make other changes by August 30 for September payment"
- IR-2021-169, August 13, 2021, "IRS: Families now receiving August Child Tax Credit payments; still time for low-income families to sign up"
- Treasury press release jy0322, August 13, 2021, "Treasury and IRS Disburse Second Month of Advance Child Tax Credit Payments"
- IR-2021-156, July 21, 2021, "IRS holds additional weekend events July 23-24 to help people with Child Tax Credit payments and Economic Impact Payments"
- IR-2021-153, July 15, 2021, "IRS: Monthly Child Tax Credit payments begin"
- Treasury press release jy0274, July 15, 2021, "Treasury and IRS Announce Families of Nearly 60 Million Children Receive $15 Billion in First Payments of Expanded and Newly Advanceable Child Tax Credit"
- IR-2021-150, July 12, 2021, "IRS: Online Child Tax Credit eligibility tool now available in Spanish; other multi-lingual materials help families see if they qualify for advance payments"
- IR-2021-146, July 7, 2021, "IRS holds special weekend events to help people who don't normally file taxes get Child Tax Credit payments and Economic Impact Payments"
- IR-2021-143, June 30, 2021, "IRS: Families receiving monthly Child Tax Credit payments can now update their direct deposit information"
- IR-2021-133, June 24, 2021, "IRS online tool helps families see if they qualify for the Child Tax Credit; one of three tools now available for the upcoming advance payments"
- IR-2021-132, June 23, 2021, "IRS and community partners team up to provide free tax help for families to get advance Child Tax Credit payments and Economic Impact Payments"
- IR-2021-130, June 22, 2021, "IRS announces two new online tools to help families manage Child Tax Credit payments"

- IR-2021-129, June 14, 2021, "IRS unveils online tool to help low-income families register for monthly Child Tax Credit payments"
- Treasury press release jy0227, June 14, 2021, "Treasury and IRS Announce New Online Tool to Help Families Register for Monthly Child Tax Credit"
- IR-2021-124, June 7, 2021, "IRS sending letters to more than 36 million families who may qualify for monthly Child Tax Credits; payments start July 15"
- IR-2021-116, May 19, 2021, "IRS urges groups to share information to help those without permanent addresses get benefits including Economic Impact Payments, upcoming advance Child Tax Credit"
- IR-2021-113, May 17, 2021, "IRS, Treasury announce families of 88 percent of children in the U.S. to automatically receive monthly payment of refundable Child Tax Credit"
- Treasury press release jy0177, May 17, 2021, "Treasury and IRS Announce Families of 88% of Children in the U.S. to Automatically Receive Monthly Payment of Refundable Child Tax Credit"
- IR-2021-106, May 11, 2021, "IRS offers overview of tax provisions in American Rescue Plan; retroactive tax benefits help many people now preparing 2020 returns"
- Treasury press release jy0069, March 18, 2021, "FACT SHEET: The American Rescue Plan Will Deliver Immediate Economic Relief to Families"

Appendix D. Steps to Reconcile Excess Advance Payments of the Child Credit Due to an Incorrect Number of Qualifying Children

Table D-1 outlines the steps a taxpayer would take to reconcile any excess advance payments of the child credit with the credit they are eligible to claim on their 2021 income tax return. In addition, **Table D-1** provides an illustration of how the safe harbor would work. ARPA provides a safe harbor in cases where a taxpayer receives excess payments due to a difference in the number of children between the data used to estimate and advance the credit (generally 2020 tax data) and the number of children they claim on their 2021 tax return. In cases where excess payments are due to large changes in income between 2020 and 2021, changes in marital status, or changes in principal place of abode, no safe harbor applies.

Table D-1. Steps for Reconciling Advance Payments of the Child Credit with the Actual Credit on 2021 Income Tax Returns

For Excess Payments That Occur Due to an Incorrect Number of Qualifying Children

Steps to Reconcile Excess Advance Payments of the 2021 Child Credit	**Example 1** Single parent with 2 qualifying young children in 2020 and 1 young child/0 older children in 2021	**Example 2** Single parent with 2 qualifying young children in 2020 and 0 qualifying children in 2021
Step 1: Determine "excess" credit.	For example: If the taxpayer's income is under $112,500 (in 2020 and 2021), then:	For example: If the taxpayer's income is under $112,500 (in 2020 and 2021), then:
A. Calculate the total credit the taxpayer is eligible for on their 2021 return.	A. Total 2021 credit: $3,600	A. Total 2021 credit: $0
B. Calculate the total amount they were advanced in 2021 (based on 2020 information).	B. Total amount advanced: $3,600 (50% of $7,200)	B. Total amount advanced: $3,600 (50% of $7,200)
C. Subtract the advance (B) from the total they are actually eligible for (A).	C. Excess credit: $0 (=$3,600-$3,600)	C. Excess credit: $3,600 (=$3,600-$0)
If B is greater than A, the taxpayer will have received an excess credit (the difference between A and B). In cases where the taxpayer has received an excess credit, the taxpayer may need to repay some or all of the excess (continue on to the steps below).	*The difference between the actual credit they are eligible for in 2021 and the advanced credit is $0. The taxpayer will effectively not receive a credit when they file their 2021 return, because they already received it as the advanced credit.*	

Step 2. Determine maximum safe harbor amount.	Not applicable, no excess payment.	
A. Determine net difference between (i) Number of qualifying children used to determine *advanced credit* and (ii) number eligible for *actual credit* in 2021.		A. The net difference between (i) the number of qualifying children from a 2020 tax return (2 children) used to determine the advanced credit and (ii) the number of children claimed on a 2021 tax return (0 children) is 2 children.
B. Multiply (A) by $2,000.		B. $2\ children\ x\ \$2{,}000 = \$\mathbf{4{,}000}$
Step 3: Phaseout maximum safe harbor, if applicable. Depending on income and filing status in 2021, the maximum safe harbor may be subject to reduction.	Not applicable, no excess payment.	
No phaseout: If 2021 income is less than or equal to the following thresholds, the safe harbor is not reduced. $40,000 single filers[a] $50,000 head of household filers $60,000 married joint filers[b]		No phaseout: If a single person in 2021 (i.e., single filer in 2021) has income of $40,000 or less, their safe harbor is not reduced (i.e., it equals the maximum safe harbor amount).
Phaseout: The safe harbor is reduced ratably (i.e., proportionally) if 2021 income is between $40,000-$80,000 single filers[a] $50,000-$100,000 head of household filers $60,000-$120,000 married joint filers[b]		Phaseout: If a single person in 2021 has income between $40,000 and $80,000, the maximum safe harbor phases out ratably in relation to income in the phaseout range. For example, if income were $60,000 in 2021, the maximum safe harbor would be reduced by: $[\frac{\$60{,}000-\$40{,}000}{\$80{,}000-\$40{,}000}]$=50% A $4,000 safe harbor reduced by 50% would equal $2,000.
No safe harbor if 2021 income is greater than or equal to $80,000 single filers[a] $100,000 head of household filers $120,000 married joint filers[b]		No safe harbor: If a single person in 2021 has $80,000 or more in income, their safe harbor amount is $0.

Step 4: Calculate the amount of any excess credit that needs to be recaptured (or paid back) on 2021 tax return: Subtract the safe harbor amount (determined after step 3) from the total amount of excess credit (determined in step 1) in 2021. If the safe harbor amount is greater than or equal to excess payment, none of the advanced amount needs to be paid back.	Not applicable, no excess payment.	If income in 2021 for a single person is: Under $44,000: Payback amount is $0 since the excess credit of $3,600 is less than the $4,000 safe harbor when income is $40,000 or less. Between $40,000 and $44,000 the safe harbor gradually declines but is still greater than or equal to $3,600. $44,000+: Payback amount equals $3,600 excess credit *minus* safe harbor until income is $80,000 or more, at which point the total excess credit of $3,600 needs to be repaid. *If income was $60,000, the safe harbor would be $2,000, the single person would need to pay back $3,600-$2,000 or $1,600* with their 2021 tax return. *If income was $80,000 or more, the safe harbor would be $0, the single person would need to pay back all* $3,600 *in excess credit with their 2021 return.*

Source: CRS analysis of P.L. 117-2.

Notes: Assumes advanced payment that would be received in 2021 would be based on 2020 income and family structure (number of qualifying children and marital status). Broadly, income is assumed to be the same between 2020 and 2021 to isolate the impact of a changing number of qualifying children.

a. This includes married taxpayers who file separately.

b. This includes taxpayers who file as surviving spouses.

Appendix E. The Child Credit and Residents of U.S. Territories

Below is a summary comparing child credit receipt among residents of the territories, before ARPA, in 2021 under current law as amended by ARPA, and after 2021 under current law as amended by ARPA.

Table E-1. Child Tax Credit for Residents of the Territories

Territory	2021 Under Prior Law (Before ARPA)	2021 Under Current Law (as amended by ARPA)	Post 2021 Under Current Law (as amended by ARPA)
Puerto Rico (PR)	PR did not have a child credit under its own internal revenue laws. PR residents with three or more qualifying children received the ACTC under the alternative formula.[a] Under this formula, the ACTC effectively equaled 7.65% of earned income up to the maximum ACTC of $1,400 per qualifying child. Residents with fewer than three qualifying children did not receive the ACTC. PR residents with three or more children claimed the federal ACTC amount by filing a return with the IRS directly. They did not receive the ACTC via their territorial tax system.	PR does not have a child credit under its own internal revenue laws. PR residents are eligible for the fully refundable ARPA-expanded child credit (up to $3,600 per young child or up to $3,000 per older child). PR residents will claim the total 2021 federal credit amount by filing a 2021 return with the IRS directly.[b] The federal advance payment program of the ARPA-expanded credit does not apply to PR residents.	PR does not have a child credit under its own internal revenue laws. PR residents will be eligible for the ACTC using the alternative formula. The prior-law limitation of the alternative formula to only families with three or more children is eliminated. Effectively, PR residents are eligible for a credit equal to 7.65% of earned income up to the maximum ACTC per child. From 2022-2025 the maximum is $1,400 per qualifying child. Beginning in 2026, the maximum amount of the ACTC is $1,000 per qualifying child. PR residents will claim the federal ACTC amount by filing a return with the IRS directly.

Territory	2021 Under Prior Law (Before ARPA)	2021 Under Current Law (as amended by ARPA)	Post 2021 Under Current Law (as amended by ARPA)
American Samoa (AS)	AS appears to have a child credit under its own internal revenue laws that reflects the parameters of the federal child credit in effect in 2000. (In 2000, the child credit was $500 per qualifying child and refundable for families with three of more children under the alternative formula.) However, it is unclear in practical terms precisely how and to what extent residents of American Samoa received the child credit under their own territorial tax system.[c] Available information suggests that residents with three or more children received the ACTC as calculated under the alternative formula. The IRS Chief Financial Officer (IRS-CFO) covered the costs of the ACTC under the alternative formula by making an aggregate payment to the territorial government. The exact manner and timing in which the territorial government then made direct payments to its residents is unclear.[e]	If AS has a plan approved by the Treasury Secretary to distribute the ARPA-expanded child credit amounts to its residents, Treasury is directed to cover the *total cost* of the ARPA-expanded child credit as if American Samoa had a mirror-code tax system. In addition, if AS chooses to provide advance payments of the 2021 credit in a manner similar to the federal program to advance the 2021 credit, Treasury will provide an additional $300,000 for administrative costs. If no such plan is established and approved, AS residents can apply for the ARPA-expanded credit by filing a tax return directly with the IRS, like residents of PR.	If AS has a plan approved by the Treasury Secretary to distribute child credit amounts to its residents, Treasury is directed to cover the *total cost* of child credit—the refundable portion (i.e., the ACTC) and nonrefundable portion—as if American Samoa had a mirror-code tax system. From 2022 to 2025, the maximum child credit amounts are $2,000 per child, of which $1,400 may be received as the refundable portion of the credit (i.e., the ACTC). From 2026 and thereafter, the amounts are $1,000 per qualifying child, of which $1,000 per qualifying child may be received as the ACTC. For these purposes, the ACTC may be calculated under the earned income formula, which is generally more generous than the alternative formula.[f] If no such plan is established and approved, AS residents can apply directly with the IRS for the ACTC calculated under the alternative formula, like residents of PR. In this case, the prior-law limitation of the alternative formula to only families with three or more qualifying children does not apply (i.e., the same treatment as residents of Puerto Rico).

Territory	2021 Under Prior Law (Before ARPA)	2021 Under Current Law (as amended by ARPA)	Post 2021 Under Current Law (as amended by ARPA)
Mirror-Code Territories (CNMI, Guam, USVI).	Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code. Hence, residents of mirror-code territories may be eligible for a child credit identical to the credit in the Internal Revenue Code (IRC). However, it is unclear in practical terms whether and to what extent residents of mirror-code territories actually receive a credit under their own territorial tax laws.[g] Available information suggests that residents with three or more children received the ACTC under the alternative formula. The IRS-CFO covered the total cost of the ACTC under the alternative formula by making aggregate payments to the territorial governments. The exact manner and timing in which the territorial governments then made direct payments to their residents is unclear.	Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code. Residents of mirror-code territories are eligible for the fully refundable ARPA-expanded child credit (up to $3,600 per young child or $3,000 per older child). Residents of the mirror-code territories will claim the benefit on their territorial tax return. The law directs Treasury to cover the total cost of the ARPA-expanded child credit as paid out by territorial governments In addition, if a mirror-code territory chooses to provide advance payments of the 2021 credit in a manner similar to the federal program to advance the credit, Treasury will provide an additional $300,000 for administrative costs.	Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code. Hence, residents of mirror-code territories may be eligible for a child credit identical to the credit in the Internal Revenue Code (IRC). From 2022 to 2025, the maximum child credit amounts are $2,000 per qualifying child, of which $1,400 may be received as the refundable portion of the credit (i.e., the ACTC). From 2026 and thereafter, the amounts are $1,000 per qualifying child, of which $1,000 per qualifying child may be received as the ACTC. The ACTC may be calculated under the earned income formula, which his generally more generous than the alternative formula.[f] Residents of the mirror-code territories will claim the benefit on their territorial tax return. The law directs Treasury to cover the total cost of the child credit (both refundable portion [i.e., the ACTC] and nonrefundable portion) as paid out by the territorial government.

Source: CRS Analysis of Internal Revenue Code (IRC) §24, P.L. 117-2, and JCX-3-21.

Notes: This reflects current law and practice and is subject to change for legislative activity, as well as additional information. These summaries assume that residents of these territories generally only file a territorial tax return with their local tax authority, and aside from claiming the ACTC, are not required to file a U.S. federal income tax return. In cases where taxpayers are required to file a U.S. federal income tax return, they may be eligible to claim the child credit on that return.

a. Under IRC §24(d)(1)(B)(ii), the alternative formula available to taxpayers with three or more qualifying children is equal to the difference in the employee's share of Social Security taxes and Medicare taxes and their EITC. Since territorial residents are generally ineligible for the EITC, the alternative formula is effectively 7.65% of earned income (i.e., W-2 wages, railroad retirement compensation, and self-employment income) up to the maximum ACTC. The maximum ACTC in 2021 before ARPA was $1,400 per qualifying child and is scheduled to remain at that level from 2022 to 2025. Beginning in 2026, the maximum ACTC is scheduled to be $1,000 per qualifying child.

b. IRS Form 1040-SS or Form 1040-PR.

c. While American Samoa's internal revenue laws may reflect the credit in place in the Internal Revenue Code for 2000, other forms available on the American Samoan website indicate that eligible residents may be able

d. to claim the ACTC under the alternative formula if they have three or more children. See Internal Revenue Service, *Bona Fide Residents of American Samoa - Tax Credits*, https://www.irs.gov/individuals/bona-fide-residents-of-american-samoa-tax-credits, and see schedule 8812 for AS Form 390 for 2020, available at https://www.americansamoa.gov/tax-office. In addition, a 2019 local news article reported that the maximum amount of the ACTC increased to $1,400 per child beginning in 2018, up from $1,000 per child, reflecting changes made to the child credit as part of P.L. 115-97. See *Talanei*, "Additional Child Tax Credit is now $1,400," January 31, 2019, https://www.talanei.com/2019/01/31/additional-child-tax-credit-is-now-1400/.

e. For example, an April 2019 American Samoan news article about delays in receiving American Samoan tax refunds from 2018 returns stated: "Just in time for Flag Day and Easter, tax refund checks—for those who qualify—will be released today; but only the locally funded ones, it does not include the Additional Child Tax Credit (ACTC), which is funded by the U.S. Internal Revenue Service.... For taxpayers expecting tax refunds including the ACTC, 'please be informed that all are on hold for now as we await a decision' from the IRS and the US Treasury Department." Fili Sagapolutele, "Tax refunds to be issued today—but no Additional Child Tax Credit yet," *Samoa News*, April 12, 2019, https://www.samoanews.com/local-news/tax-refunds-be-issued-today-no-additional-child-tax-credit.

f. Under current law, the earned income formula is 15% of earned income above $2,500 up to a maximum of $1,400 per child. This formula is in effect from 2022 through 2025. Beginning in 2026, the formula is scheduled to be 15% of earned income above $3,000 up to a maximum of $1,000 per child.

g. For example, even if a territorial resident were eligible for the full value of the child credit (both the refundable portion [i.e., ACTC] and the non-refundable portion) under their own territorial income tax law, the territorial government may have recaptured some or all that credit by enacting an excise tax credit.

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