

The Child Tax Credit under the American Rescue Plan

Adam J. Cole

U.S. Department of the Treasury

May 13, 2022

Prepared for the 2022 National Tax Association Spring Symposium

This presentation does not necessarily reflect the views or policies of the U.S. Department of the Treasury.

Evolution of the Child Tax Credit – Rough Descriptions

Provision	Pre- and Post- “TCJA” (TY 2017, 2026 -)	“TCJA” (TY 2018 – 2020, 2022 – 2025)	ARP (TY 2021)
Max Credit	\$1,000 per qualifying child (QC)	\$2,000 per QC Plus \$500 non-refundable credit for non-QC dependents	\$3,600 (per QC under 6) \$3,000 (per QC age 6-17) Plus \$500 non-refundable credit for non-QC dependents
Refundability (Also referred to as the Additional Child Tax Credit [ACTC])	Lesser of (i) \$1,000 multiplied by # of QC and (ii) 15% of earnings in excess of \$3,000, up to unclaimed amount of CTC 3+ QC: Greater of (a) the above and (b) excess of SSA taxes over Earned Income Tax Credit	Lesser of (i) \$1,400 multiplied by # of QC and (ii) 15% of earnings in excess of \$2,500, up to unclaimed amount of CTC • \$1,400 is indexed but can't exceed \$2,000 3+ QC: Greater of (a) the above and (b) excess of SSA taxes over Earned Income Tax Credit	Fully refundable if taxpayer has principal place of abode in US for more than half the TY or is a bona fide resident of Puerto Rico. • If taxpayer does not meet principal place of abode or residency requirement, TCJA ACTC rules for refundability apply.
Credit Phase-out: Modified Adjusted Gross Income (MAGI) Thresholds	\$110k/\$55k/\$75K (unindexed) (MFJ/MFS/S, HoH, and QW)	CTC plus other dependent credit phased out starting at MAGI of \$400k/\$200k/\$200K (unindexed) (MFJ/MFS/S, HoH, and QW)	First \$1,600 per QC under age 6 and first \$1,000 per QC 6-17 phases out starting at MAGI of \$150K/\$112.5K/\$75K (MFJ and QW/HoH/S and MFS) • Remainder of CTC plus Other dependent credit phase-out starting at MAGI of \$400k/\$200k/\$200K (MFJ/MFS/S, HoH, and QW)

Evolution of the Child Tax Credit – Rough Descriptions

Provision	Pre- and Post- “TCJA” (TY 2017, 2026 -)	“TCJA” (TY 2018 – 2020, 2022 – 2025)	ARP (TY 2021)
Child ID Requirement	TIN	SSN	SSN
Max Age of Qualifying Child	16	16	17
Advance CTC Payments	No	No	Yes*

* 50% of estimated credit (\$1,800 per QC under age 6 and \$1,500 per QC age 6 – 17) paid in 2nd half of 2021.

- Estimate based on info from TY2020 or TY2019 return (including non-filer tools used to file)
- Taxpayer could opt out of advance payments
- Taxpayer claims on TY 2021 return difference between credit (determined by TY 2021 info) and amount advanced in 2021.
 - May have to pay back if
 - Modified AGI exceeds safe harbor amount and
 - (Effectively,) number of QC on TY 2021 return is less than number used as basis for advance payments in 2021.
 - Safe harbor fully phased out at MAGI of \$120K/\$100K/\$80K (MFJ and QW/HoH/S and MFS)

Advance Payments of the Child Tax Credit under the American Rescue Plan

Mechanics

- Automatically disbursed based on 2020 tax return information or 2019 tax return information (including returns filed through online non-filer tools).

Logistics

- In June 2021, IRS sent Letter 6417 to inform recipients of the amount of their estimated monthly payments.
- If payments initially based on 2019 return and IRS then processed 2020 return, IRS would increase or decrease future payments proportionately.
- In January 2022, IRS sent Letter 6419 to recipients providing total amount of monthly payments disbursed to them during 2021.

Opt-out of advance CTC payments (can still claim CTC on 2021 return)

- One-time decision. Took effect for the first month following IRS processing of the opt-out election. Both spouses had to opt out for a joint return not to receive a payment.

Timeline

- Payments disbursed monthly from July 15 until December 15, 2021.

What Information is Available on Advance CTC Payments?

Thanks to some **very** complicated work by the Office of Tax Analysis and the IRS (RAAS / SOI / IT)...

- Information on
 - By state, payments **disbursed** (found on OTA website)
 - By state, by Adjusted Gross Income, by Filing Status, payments **received (coming soon)**
- Required merging Tax Return information with payment file information and working with obscure (to us) IRS transaction codes
 - Doing this concurrently with the payments being disbursed so Treasury could report information to the public on the **same day as the payments landed** in people's bank accounts.

What Information Do We Have on Advance CTC Payments?

	Payments Disbursed	Payments Received
Reporting Concept	Payment Level	Tax Unit
Periodicity	Monthly	Aggregate of 2021
Monthly Payment Waves	Yes	Yes
Payments Made in Other Weeks	No	Yes
Accounts for Payments Reversed and Reissued	No	Yes (no double-counting)
Accounts for Joint Filers Switching Primary and Secondary Filer Across Tax Years	No	Yes

Interpreting Advance CTC Information on Payments Received

Aggregate payment amount for a **set** of tax units is a function of...

- Fraction of tax units that filed a TY 2020 or TY 2019 return (+)
- Number of qualifying children (+)
- Age distribution of qualifying children (under 6; age 6–17)
(+ ; -)
- Income distribution (higher income areas → weakly -)
- Fraction of tax units that opt out of advance payments (-)

Interpreting Advance CTC Information on Payments Received

The tables don't tell the whole story of the CTC under the ARP.

They tell us about payments to tax units determined to be eligible for advance payments based on TY 2019 or TY 2020 information.

Tables miss tax units that...

- Didn't file a TY 2019 or TY 2020 return,
- First-time parent in 2021,
- Opted out (before first payment, so missing completely; or after first payment, so missing partially)

Tables don't account for CTC claimed on the TY 2021 return.

Preliminary Results for Advance CTC Payments

- More than \$93 billion received
- More than 37 million tax units
 - Covering more than 61 million qualifying children
- ~ \$2,500 per tax unit
- ~ \$1,500 per qualifying child
- ~ 30% of the dollars went to tax units with AGI of \$30K or less
- ~ 50% of the dollars went to tax units with AGI of \$50K or less