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Many taxpayers claiming children on their 2020 tax return will be receiving monthly payments from the IRS beginning in July. The federal government has increased the child tax credit and will *prepay* part of the credit to qualified taxpayers in monthly installments. At the end of the year when taxpayers file their 2021 taxes the higher credit will be reduced by the prepayments received. Here are some important facts regarding the credit:

- The **child tax credit has increased** from \$2,000 to \$3,000 per child. Children turning age 6 and younger in 2021 will receive \$3,600.
- The **credit is entirely refundable**. Previously, taxpayers with low income did not receive the entire credit in their refund. That has been changed for 2021.
- The credit now **includes dependents who are turning 17** in 2021. Under previous legislation 17 year old dependents were excluded from the credit.
- The IRS will **look at your 2020 tax return** to *estimate* your monthly prepayment. If you have not filed for 2020 then they will look at your 2019 tax return.
- Married taxpayers with income over \$150,000 and single taxpayers over \$75,000 will have the **increased credit amount reduced or eliminated**.
- **Prepayments of 1/12 of the total credit** will be released monthly to taxpayers beginning July 15th through December 2021. Young dependents (6 and younger) will receive \$300 per month and older dependents (age 7 to 17) will receive \$250 per month.
- **Prepayments will be deposited to your bank account**. If the IRS does not have your bank information on file it will send checks or prepaid debit cards to your address.
- The increased child tax credit as well as the prepayment provisions are **only for the 2021 tax year**. There are currently no plans to have these laws, payments and amounts continue into 2022.

There are many taxpayer specific circumstances to consider with this new legislation. The IRS has announced that they will launch a portal on July 1st that allows taxpayers to modify the IRS estimate of a taxpayer's credits. Here are some important considerations when thinking about logging in and modifying your prepayment:

- Taxpayers who **share a dependent for tax purposes** may have to repay the prepayment. If you claimed a child on your 2020 tax return but will not be claiming the child for 2021, you should consider logging into the portal to stop the prepayment. Any prepayments you receive for the shared dependent will need to be repaid via your 2021 tax filing.
- **Lower income taxpayers will have limited repayment requirements**. Married taxpayers with income below \$60,000 and single filers with income less than \$40,000 will qualify for a "safe harbor." This means that if you are liable to repay part of the child tax credit prepayment on your 2021 taxes, up to \$2,000 of repayment will be waived and not be required to be repaid.
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- **Lower income taxpayers will have limited repayment requirements**. Married taxpayers with income below \$60,000 and single filers with income less than \$40,000 will qualify for a "safe harbor." This means that if you are liable to repay part of the child tax credit prepayment on your 2021 taxes, up to \$2,000 of repayment will be waived and not be required to be repaid.
- The full credit (\$3,600) for **children born in 2021** will be added to your refund when you file your 2021 tax return.
- **Shared dependents** that you did not claim in 2020 but are **added to your return** for 2021 will also qualify for the full credit when you file your 2021 taxes.
- **Children who turned 17 in 2020** (turning 18 in 2021) will not qualify for the child tax credit for 2021. The portal should be used to stop the prepayment for older children if the IRS doesn't automatically account for age.

- If your 2020 income was below the phase out range (\$150,000 for married taxpayers and \$75,000 for singles) and **2021 income increases passed the phase out range** then you will want to use the portal to stop the prepayment or expect to repay the prepayments on your 2021 taxes.
- **You must file a 2019 or 2020 tax return to receive the prepayment.** If you have not been required to file or have not filed a tax return for the last two years we recommend filing a 2020 tax return. You will be required to file a 2021 tax return to reconcile the prepayments to receive the rest of the child tax credit.

We will send you a link to the IRS portal as soon as it becomes available. As always, please don't hesitate to contact us with more specific questions and tax planning!

Regards,

Dear Valued Clients,

Many taxpayers claiming children on their 2020 tax return will be receiving monthly payments from the IRS beginning in July. The federal government has increased the child tax credit and will *prepay* part of the credit to qualified taxpayers in monthly installments. At the end of the year when taxpayers file their 2021 taxes the higher credit will be reduced by the prepayments received. Here are some important facts regarding the credit:

- The **child tax credit has increased** from \$2,000 to \$3,000 per child. Children turning age 6 and younger in 2021 will receive \$3,600.
- The **credit is entirely refundable**. Previously, taxpayers with low income did not receive the entire credit in their refund. That has been changed for 2021.
- The credit now **includes dependents who are turning 17** in 2021. Under previous legislation 17 year old dependents were excluded from the credit.
- The IRS will **look at your 2020 tax return** to *estimate* your monthly prepayment. If you have not filed for 2020 then they will look at your 2019 tax return.
- Married taxpayers with income over \$150,000 and single taxpayers over \$75,000 will have the **increased credit amount reduced or eliminated**.
- **Prepayments of 1/12 of the total credit** will be released monthly to taxpayers beginning July 15th through December 2021. Young dependents (6 and younger) will receive \$300 per month and older dependents (age 7 to 17) will receive \$250 per month.
- **Prepayments will be deposited to your bank account**. If the IRS does not have your bank information on file it will send checks or prepaid debit cards to your address.
- The increased child tax credit as well as the prepayment provisions are **only for the 2021 tax year**. There are currently no plans to have these laws, payments and amounts continue into 2022.

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- Taxpayers who **share a dependent for tax purposes** may have to repay the prepayment. If you claimed a child on your 2020 tax return but will not be claiming the child for 2021, you should consider logging into the portal to stop the prepayment. Any prepayments you receive for the shared dependent will need to be repaid via your 2021 tax filing.
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Regards,