



Understanding the Expanded Child Tax Credit

April 2021

The [American Rescue Plan](#) (ARP), signed into law in March, includes a significant, one-year expansion to the Child Tax Credit (CTC). Millions of newly eligible children and their families will benefit from this major expansion, and successful implementation is now key to realizing a significant reduction in child poverty, building racial equity, and creating a public investment for the good of all children.

The popularity of this transformative policy change has led many to ask—what exactly is the CTC and why is it important for kids and for racial equity? The Child Tax Credit (CTC) was enacted in 1997 and has consistently helped families afford the everyday expenses of raising children. Until now, this has been done through a tax credit that some parents and caregivers could claim when they filed their taxes. Taxpayers who are eligible for the benefit are able to subtract its value from the total amount of taxes they owe.

The American Rescue Plan makes the CTC available to more children and their families. It extends eligibility to the [23 million children](#)—disproportionately Black and Latinx children—who previously did not qualify because their families make too *little*. It corrects a long-standing issue with the policy: reaching the kids who need help the most and doing right by our children. This expansion may significantly reduce [child poverty and racial disparities](#) this year, and in the long-term, it is likely to increase income security, provide flexibility and freedom to families, and invest in a brighter future for our children. Moreover, ample research shows that additional income such as a child allowance has [long-term benefits](#) for children's educational attainment, employment, and health.

Now, you may be asking yourself, what does this expanded CTC benefit mean for my family and me? What do I need to know about it? Here's what you need to know about the expanded CTC:

How much will I get?

The simple answer is that it depends on your income, how many children you have, and their ages.

If you are unmarried and earn less than \$112,500 per year or are married and your household income is less than \$150,000, you will receive \$3,600 per child under six years old and \$3,000 per child age six to 17—with periodic or monthly payments starting around July 2021. Estimates project families will receive about \$300 per child for children under six, and \$250 per child between six and 17, for each periodic payment.

So for example, if you have one child, aged seven, you will receive \$3,000 over the course of a year, or \$250 per month. If you have two children, aged four and seven, you will receive \$6,600 over the course of the year, or \$550 per month (\$6,600 divided by 12 months).

How do I qualify?

Families in the U.S. and territories qualify for the newly expanded CTC. Joint filers making up to \$150,000, single head of households making up to \$112,500, and other single filers making up to \$75,000 qualify for the full advanced periodic payment of the CTC.

The cash benefit begins to reduce by \$50 for every additional \$1,000 of income earned. Higher-income families who previously qualified are still eligible for the \$2,000 per child benefit for individuals making up to \$200,000 and joint filers making up to \$400,000. Meaning, they will not receive less than what they previously did under current law.

Do I have to be employed to receive the expanded CTC?

No, you do not have to be employed to receive this newly expanded CTC. Under the ARP, the cash benefit is available to families who have no income at all. This a change from current law, as families had to make at least \$2,500 to qualify and over \$30,000 to get the full benefit of the CTC.

What does an advanced monthly or periodic payment mean?

Your family could receive some of the cash benefit as an “advance” on your 2021 taxes through periodic or monthly payments. That means half of the cash benefit would be paid out this year through the end of the year (roughly July - December 2021). Then you would receive the other half of the payments with your 2021 tax refund, filed in 2022. Monthly or other periodic payments, as opposed to a lump sum at tax time, will help families [better meet their daily and monthly living expenses](#).

The IRS is also directed to create an option for families to “opt-out” of the monthly or periodic payment, if they would prefer to have the cash benefit in one lump sum during tax time.

When will I get the monthly cash benefit?

The periodic payment is subject to how quickly the IRS can implement the online and periodic payment portal, but under the ARP, families could receive the monthly payment as early as July 1, 2021.

However, the ARP gives the Secretary of the Treasury the flexibility to issue the advanced payments as frequently as the Secretary deems feasible. Meaning, it could be more or less frequently than “monthly.” The IRS has also recently indicated it [might have issues getting the monthly payment structure up and running](#) under the timeline in the American Rescue Plan.

How will the IRS know how much money to give my family?

The ARP directs the Secretary of the Treasury to use information from your family's 2020 tax return to calculate how much of the credit you will be eligible for in order to deliver the advanced payment. If your family didn't file taxes in 2020, the IRS will use information from your 2019 return. According to recent statements made by the IRS Commissioner, families that haven't filed their taxes recently will have to [file a return to receive the credit](#). Typically the IRS works best when it knows where you live and has your information on file so it can calculate your number of dependents and send you automatic direct deposit to claim the cash benefit.

Can the benefit be split between multiple parents or caregivers? What if my child has split custody?

The [current law](#) says that the child (dependent) must live with the adult or caregiver for six months out of the year, this is known as the “[residency](#)” test. The intent is that the primary custodian (parent who has primary custody) will receive the cash benefit, because the child has spent over 50 percent of the time with that parent.

While there are exceptions for children of divorced or separated parents, it is very difficult for the IRS to split benefits because the laws state that each dependent can only be claimed by one taxpayer, meaning two parents cannot each claim the child and receive a payment for the same child. Therefore, the IRS has established a system of “[tie breaker](#)” rules for children who live with two parents or caregivers for an equal amount of time: the parent with the higher [adjusted gross income \(AGI\)](#) for the year may claim the child. According to CNBC, “in some cases, divorced or unmarried couples [work out their own arrangements](#), such as those with multiple children dividing their children as dependents or those with only one child or an odd number of children alternating which years they claim a dependent for tax purposes. In those cases, parents typically fill out IRS [Form 8332](#) to direct who should receive the amount.”

While the IRS has not yet established how they will administer advanced periodic payments to parents in split custody arrangements, it is likely they will send the cash benefit to the person who claims the child on their tax return in 2020 because it is determined on a yearly basis. The IRS will need to establish a clear and concise portal for families to update their information in real time, as frequently as possible, so the benefit can follow the child and parents can update information on who should receive the payment. Changes in life circumstances, including moving, income, marriage, or an increase or decrease in the number of children living in a home are common occurrences for families, so the IRS will need to develop a way to track and account for those changes.

But what if I don't file taxes or do not make much earned income. Will I still qualify?

Yes, the ARP directs the IRS to host a website and portal so that non-tax filers are able to claim the CTC. In cases where eligibility or information cannot be determined by tax returns, the IRS is also directed to gather information from other sources to help determine that information for you. However, [IRS Commissioner Rettig](#) told Congress that non-filers will have to file in order to receive the expanded CTC, which is problematic for families who might not feel comfortable filing a tax return for any number of reasons and should not be forced to.

It will be critical for the IRS and for local and community organizations to help get the word out to those who are newly eligible; to families who are already connected to other public benefit systems like SNAP, Medicaid, and Social Security; and to those who do not file taxes. The IRS will have to determine these policies during the implementation period and help conduct aggressive outreach in a short period of time to ensure that *no* children fall through the cracks.

How will the IRS get me this money?

If the IRS already has your bank account information on file, you may receive the CTC payments through direct deposit, as you would a tax refund or a recent Economic Impact Payments (EIPs), commonly known as the stimulus checks.

If you receive Social Security benefits like SSI or SSDI, you might receive payments via a [Direct Express Debit Card](#). Paper checks or [EIP debit cards](#) might also be an option for those who are unbanked, non-filers, or do not have their bank information with the IRS. While these rules have yet to be formally established, the IRS will need to quickly develop a policy for those who are underbanked or unbanked, are non-filers, or in other special circumstances to help families who are hardest to reach. This is another element of the law's rollout that is not yet clear.

What if the IRS sends me a payment that is actually more than I'm supposed to get. Will they make me pay it back?

Possibly, but it depends.

Thanks to what is known as the safe harbor phaseout, joint filers earning up to \$60,000, heads of households earning up to \$50,000, and single filers earning up to \$40,000 will not have to pay back overpayments up to \$2,000 that arise from the IRS overestimating the number of eligible children in their household. However, for families earning more than this strict phaseout, they will be required to pay back some or all of the overpayment from the IRS. In the event that the IRS overpays the cash benefit arising from changes in other life circumstances, like changes in your income or marital status, families will be required to pay back the full amount of the overpayment regardless of income.

Will I continue to get this cash benefit every year?

Not currently. This is a temporary expansion of the CTC that applies only for tax year 2021. The [Children's Defense Fund](#) is fighting hard to ensure that Congress takes additional action and passes legislation that includes a permanent expansion and includes critical improvements in order to make these changes permanent.

What does full refundability mean?

Full refundability means that families with low incomes or no income at all are eligible for the full value of the CTC. Under previous law, taxpayers could only receive the full CTC if they earned enough to owe substantial federal income tax.

By making the credit fully refundable, the American Rescue Plan expands the reach of the CTC and no longer ties it to work and employment status. CDF has long advocated for this change as a way to ensure that all children benefit from this poverty-fighting tax credit.

Will this benefit impact my eligibility for other benefits or programs?

No, the CTC does not impact your eligibility for other federally-funded benefit programs, such as SNAP. Tax credits do not count against earned income.

What if my child is undocumented and has an Individual Tax Identification Number (ITIN). Will they qualify?

Unfortunately, the 2017 Tax Cuts and Jobs Act required that children have Social Security Numbers (SSNs) to be eligible for the CTC for the first time—making an estimated 1 million children ineligible for the credit. Rolling back this Trump-era exclusion of immigrant children is vital to ensure that more children benefit from this public investment.

What if I just gave birth, adopted a child, or just came to the United States. When will I get the monthly benefit?

Answers to those critical questions have not been established yet.

What if I find out that I do not qualify for the benefit? What happens then?

Unfortunately, this program is not perfect or universal. In addition to making this policy permanent, critical changes are needed to ensure that the money follows the child and that all children benefit from this public investment. We are fighting hard for a true, universal child allowance policy that is flexible, easy to access, follows the child, and regularly and meaningfully increases family income.

What else is the Children's Defense Fund doing to ensure this expansion benefits all children?

Put simply, the expanded CTC is an investment in our nation's future and an acknowledgment that we as a society have a responsibility to ensure the next generation has the opportunity to fulfill their potential and to succeed.

CDF is working to make [critical improvements to the expanded CTC permanent](#) and ensure it benefits *all* children, particularly immigrant children, children in other public systems, and others who have been historically left behind. As you might have noticed, some information that might help you better understand how the newly expanded CTC will benefit your family is forthcoming. We will be consistently updating this page as soon new information is released to keep families up to date on the most recent, pertinent information, so please continue to use this page as a reference.