

What's up with those checks showing up in my bank account?

## Frequently asked questions on the expanded Child Tax Credit

**B**y now many Iowans know that the American Rescue Plan passed by Congress earlier this year included an important expansion of the Child Tax Credit (CTC). In fact, if you have children under age 18 living in your home, you have probably already received at least one monthly payment in your bank account.

Here are answers to frequently asked questions about how the CTC works for most families — couples with income under \$150,000 and heads of households with income under \$112,500. (At higher incomes, the increase in the CTC is phased out and the issues are more complicated.)

### **Q. What exactly is the Child Tax Credit?**

**A.** The Child Tax Credit — created in 1997 and expanded with bipartisan support in 2001 — helps offset the costs of raising children. Until now the credit could reduce a family's federal income tax by up to \$2,000 per eligible child, but it missed or limited help for many families that needed it most.

### **Q. How is the CTC different this year?**

**A.** The American Rescue Plan temporarily improves the credit in some important ways:

- It increased the credit by \$1,600 for every child under age 6 — from \$2,000 to \$3,600 — and by \$1,000 for every child between 6 and 17 — from \$2,000 to \$3,000.
- The credit now covers 17-year-olds and is available to very low- or no-income families who previously were not eligible.
- For the first time it is fully refundable. That means that you may use it to reduce your tax to zero, and then receive a payment from the IRS — a refund — for any credit remaining.
- Half of the CTC is paid monthly, in advance. This is a way to help families pay their bills as they come due instead of having to wait till they file their taxes next year.

### **Q. Is the credit considered income, and will I have to pay taxes on it?**

**A.** No. It is not considered income and you do not pay taxes on it.

### **Q. Will it reduce what I get from other benefit programs?**

**A.** No. It cannot be counted as income for programs like SNAP, Medicaid, or Child Care Assistance.

### **Q. Will I have to pay back part or all of the advance payments when I file my taxes next year?**

**A.** Likely not. Advance payments are not loans. If you have the same number of children and same income on December 31, 2021, that you claimed on your most recent tax return, you will not have to repay any of the credit you received as monthly deposits.

But if the credit calculated when you file your 2021 tax return is different from what the IRS estimated based on your most recent tax return, you may have to pay back part or all of the advanced credit (or you may receive more than expected) at tax time.

**Number of children:** If you have fewer qualifying children than you claimed on your most recent tax return and your 2021 income is more than \$60,000 for married couples and \$50,000 for heads of

households, you may have to pay back some or all the credit. Congress enacted safe harbor protection for families with incomes below these thresholds if the IRS overpays you because of changes to the number of children you claim. The safe harbor amount gradually decreases as your income increases.

**Income:** Safe harbor protection does not apply to changes in income. If your income has risen above (or fallen below) the credit's upper threshold, you may have to pay back some or all of the credit (or you may get back more than expected).

**Q. I did not have to file a 2019 or 2020 tax return. Can I still receive advance payments?**

**A.** Absolutely! Sign up using the [IRS Non-Filer Tool](#). You'll need:

- Social Security numbers for your children and SSNs or ITINs for you and your spouse (if applicable)
- Reliable mailing and email addresses
- Bank account information, if you want direct deposit

**Q. I don't want any more monthly payments. I would rather get the rest of the credit with my refund next year. Can I unenroll from advance payments?**

**A.** Yes. Visit the IRS [Child Tax Credit Update Portal](#).

**Q. How long will I receive the monthly payments?**

**A.** The American Rescue Plan authorized the expanded Child Tax Credit only for 2021. The advanced payments are scheduled for July through December of this year. But there's interest in making the expanded CTC permanent. If you support that, [contact your members of Congress](#) and tell them!

Learn more about the CTC at the IRS page: [Child Tax Credit and Advance Child Tax Credit Payments](#).

**Common Good Iowa** is a nonpartisan, nonprofit organization built on the collective 50 years of experience of the Child and Family Policy Center and Iowa Policy Project. Common Good Iowa informs policymaking to turn Iowa values into concrete solutions that advance opportunity for all Iowans. Learn more at [www.commongoodiowa.org](http://www.commongoodiowa.org).

**Q. Can you give some examples of how the expanded CTC will help different families?**

**A.** Yes. The benefits depend on a family's income and the number and ages of their children. For simplicity, in these examples families have one child and report the same income in both 2020 and 2021.

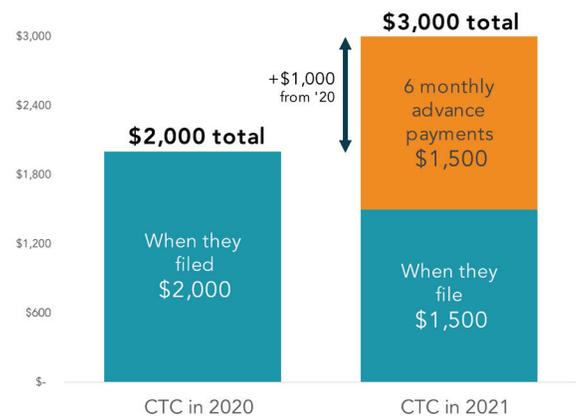
**Family A** | 1 child, age 9 | Income: **\$25,000**

Federal income taxes due (before CTC): **\$1,400**



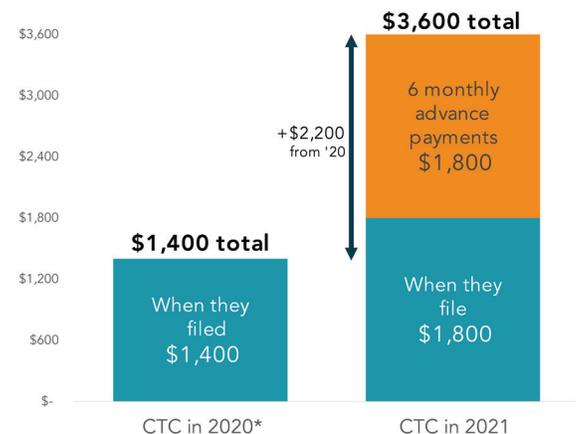
**Family B** | 1 child, age 9 | Income: **\$75,000**

Federal income taxes due (before CTC): **\$3,600**



**Family C** | 1 child, age 2 | Income: **\$25,000**

Federal income taxes due (before CTC): **\$1,400**



\* Families A and C could use only \$1,400 of the full \$2,000 credit in 2020 because it was only partially refundable: it could only erase the taxes they owed.