



Child and Dependent Care Tax Credit

- **The American Rescue Plan Act (ARPA) of 2021 was enacted on March 11, 2021. It includes various tax provisions to benefit qualifying taxpayers by reducing tax and increasing certain credits.**
 - Section 9631 - Refundability and Enhancement of Child & Dependent Care Tax Credit
 - Section 9632 - Increase in exclusion for employer provided dependent care assistance

Part 4 – Dependent Care Assistance Provisions



Child and Dependent Care Tax Credit

- **The new law increases the amount of the credit and eligible expenses for child and dependent care (CDCC) for Tax Year 2021.**
- **For Tax Year 2021:**
 - Maximum percentage of eligible expenses is increased from 35 to 50 percent.
 - Eligible families can claim a qualifying child and dependent care expenses of up to \$8,000 for one qualifying individual or \$16,000 for two or more qualifying individuals.

**Section 9631 – Refundability
and Enhancement of Child and
Dependent Care Tax Credit**



Child and Dependent Care Tax Credit

- **For Tax Year 2021 (continued):**
 - The phaseout threshold increased from \$15,000 to \$125,000. At \$125,000, the credit percentage begins to phase out, and plateaus at 20 percent. This 20 percent credit rate phases out for taxpayers whose AGI is over \$400,000; taxpayers with income over \$500,000 are not eligible for the credit.
 - The credit is fully refundable for TY 2021 for the first time. This means that an eligible family can get it, even if they owe no federal income tax. To be eligible for the refundable portion of the credit for TY 2021, the taxpayer (or their spouse in the case of a joint return) must have their main home in one of the 50 states or the District of Columbia for more than half of the tax year.

**Section 9631 – Refundability
and Enhancement of Child and
Dependent Care Tax Credit**



Child and Dependent Care Tax Credit

- **For Tax Year 2021 (continued):**
 - The provider's TIN is not required when the taxpayer has exercised "due diligence" in their attempt to comply with the requirement. Due diligence only applies to notations that indicate either the provider has moved, and the taxpayer is unable to find the provider to get the TIN or the provider has refused to give the TIN to the taxpayer.
 - The new law provides for a reimbursement of mirror code territories for the costs of this refundable credit in TY 2021. Additionally, for non-mirror code territories (i.e., Puerto Rico and American Samoa), provides a reimbursement for the entire value of such a credit, provided the territory develops a plan, approved by the Secretary, to distribute these amounts to its residents.

**Section 9631 – Refundability
and Enhancement of Child and
Dependent Care Tax Credit**



Child and Dependent Care Tax Credit

- **Increases the exclusion for employer-provided dependent care assistance from \$5,000 to \$10,500 for Tax Year 2021.**
- **Previously, the amounts were \$2,500 to \$5,250 when a married individual filed a separate return.**

Section 9632 – Increase in exclusion for employer provided dependent care assistance



Child and Dependent Care Tax Credit

- **Return Integrity and Compliance Services (RICS) will work these provisions as a pre-refund program for the refundable Child and Dependent Care Credit for Tax Year 2021.**

Return Integrity and Compliance Services (RICS)



Child and Dependent Care Tax Credit

Math Error Authority

- Section 9631 of the ARP Act provides the Service with math error authority to disallow any portion of the refundable CDCC in cases, as shown below.
- Form 2441 contains a new checkbox B, that requires one of the taxpayers to have a principal residence in the United States for more than one-half of 2021.

Version A, Cycle 3

Form 2441 Department of the Treasury Internal Revenue Service (99)	Child and Dependent Care Expenses ▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form2441 for instructions and the latest information.		OMB No. 1545-0074 2021 Attachment Sequence No. 21
Name(s) shown on return		Your social security number	
<p>A You can't claim a credit for child and dependent care expenses if your filing status is married filing separately unless you meet the requirements listed in the instructions under "Married Persons Filing Separately." If you meet these requirements, check this box. <input type="checkbox"/></p> <p>B For 2021, your credit for child and dependent care expenses is refundable if you, or your spouse if married filing jointly, had a principal place of abode in the United States for more than one-half of 2021. If you meet these requirements, check this box. <input type="checkbox"/></p>			



Today's
session
will
cover:

- **What's new about the Child Tax Credit in 2021**
- **Reconciliation of Child Tax Credit and Advance Payments**
- **End of Year Letter 6419**
- **Other Refundable Credits**
 - Credit for Other Dependents
 - American Opportunity Credit (AOTC)



Raises the Maximum Qualifying Age

2021	2020
Children age 17 and under can qualify for the credit.	Children age 16 and under can qualify for the credit.





What's new about the CTC in 2021?

Increases the Maximum Credit Amount

2021	2020
Up to \$3,000 per child age 6 – 17.	Up to \$2,000 per child under age 17.
Up to \$3,600 per child under age 6.	Up to \$2,000 per child under age 17.





What's new about the CTC in 2021?

Adds Additional Income Phaseout Threshold

Filing Status	Full Enhanced 2021 Credit With Additional \$1,000/\$1,600	Full Regular Credit of \$2,000
Single	\$75,000	\$200,000
Married Filing Separately	\$75,000	\$200,000
Head of Household	\$112,500	\$200,000
Qualifying Widow(er)	\$150,000	\$200,000
Married Filing Jointly	\$150,000	\$400,000



What's new about the CTC in 2021?

Makes the Credit Fully Refundable

2021	2020
Refund Limit: None	Refund Limit: \$1,400

Taxpayers who don't meet the 1/2+ year principal place of abode test are still subject to the old ACTC rules including the refund limit.





What's new about the CTC in 2021?

Removes Minimum Earned Income Requirement

2021	2020
Zero	At least \$2,500

Taxpayers who don't meet the 1/2+ year principal place of abode test are still subject to the old ACTC rules including the earned income requirement.





Provides advance payments

2021 Advance Child Tax Credit (AdvCTC) payments

Based on the most current year tax filing from either 2020 or 2019

Paid Monthly

From July 15, 2021, to December 15, 2021

50% of the estimated 2021 child tax credit

Amount can be adjusted through the IRS Child Tax Credit Update Portal



Reconciliation of Child Tax Credit Advance Payments

- **Taxpayer must reconcile the Child Tax Credit Advance Payments to the total allowable CTC determined on the 2021 return.**
- **The net allowable credit equals the total allowable credit less the total of the 2021 advance payments.**
 - If the difference is greater than zero, the net CTC is offset against the tax liability and is refundable to the extent it exceeds tax liability.
 - If the difference is less than zero, then the net CTC is considered zero and the excess advance payments may need to be repaid as additional tax.
- **Any failure to accurately reconcile will be treated as a mathematical/clerical error.**
- **IRS will issue Letter 6419 showing total advance payments by 1/31/22.**



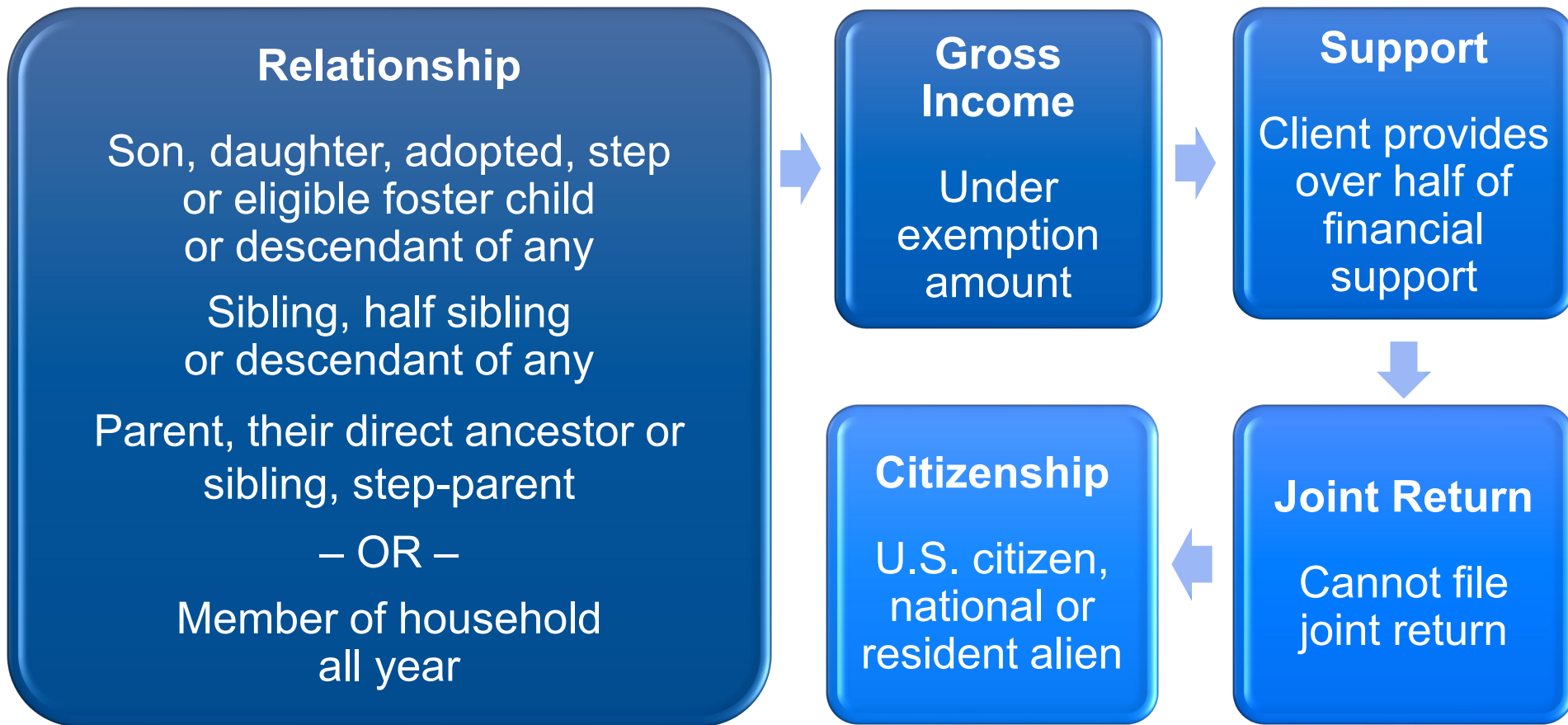
- **End of Year Letter Specifications**
 - Will be issued in January 2022
 - Required by law
 - English and Spanish versions
 - Summarizes 2021 advance CTC payments
 - Displays the number of qualifying children



Credit for Other Dependents

CTC child who doesn't have the required SSN or is over age 17

– OR –





American Opportunity Tax Credit

- **Basic eligibility rules to claim the credit**
 - First 4 years of post-secondary school
 - Taxpayer ID number by return due date, including extensions
 - Student enrolled at least half time pursuing recognized credential
 - No felony conviction



Earned Income Tax Credit (EITC)

Temporary Changes (for 2021 only)

- **EITC for workers without Qualifying Children (childless EITC)**
 - More workers without qualifying children can qualify for EITC since the age limit has changed.
 - The taxpayer must be at least age 19 as of 12/31/21. The prior minimum age limit was 25.
 - There is no maximum age limit. The prior maximum age limit was 64.
 - Qualified former foster youth or qualified homeless youth can qualify for EITC; they must be at least 18 as of 12/31/21.
 - Specified Students can qualify for EITC; they must be at least 24 as of 12/31/21.



Increased EITC Amounts and Income Phase-out Amounts for Workers Claiming Childless EITC

- **Maximum EITC amount in 2021 is \$1,502, an increase from \$543.**
- **Earned income phase out amount for a single taxpayer is \$21,430 and \$27,380 for spouses filing a joint return.**
- **Income used to calculate EITC for 2021 can be either 2019 earned income or 2021 earned income, whichever number gives the larger 2021 EITC credit.**

Earned Income Tax Credit (EITC)

For taxable years beginning in 2021: Number of Qualifying Children

<u>Item</u>	<u>One</u>	<u>Two</u>	<u>Three or More</u>	<u>None</u>
Earned Income Amount	\$10,640	\$14,950	\$14,950	\$9,820
Maximum Amount Of Credit	\$3,618	\$ 5,980	\$6,728	\$1,502
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$19,520	\$19,520	\$19,520	\$11,610
Complete Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$42,158	\$47,915	\$51,464	\$21,430
Threshold Phaseout Amount (Married Filing Jointly)	\$25,470	\$25,470	\$25,470	\$17,560
Completed Phaseout Amount (Married Filing Jointly)	\$48,108	\$53,865	\$57,414	\$27,380



Permanent Changes (for 2021 and beyond)

■ Investment Income

- More workers and working families who have investment income can get the credit. Starting in 2021, the amount of investment income they can receive and still be eligible for the EITC increases to \$10,000 (increased from \$2,200).

■ Social Security Identification Requirement for Qualifying Children

- If an eligible taxpayer has qualifying children, but cannot provide their social security number, the taxpayer is eligible for EITC that applies for taxpayers who have no qualifying children (single EITC). However, the taxpayer must have a social security number.



Joint Filing Requirement for Married but Separated Taxpayers

- **Married but separated taxpayers who do not file a joint return may qualify to claim the EITC if they live with their qualifying child for more than half the year and either:**
 - Do not have the same principal place of abode as the other spouse for at least the last six months of tax year for which the EITC is being claimed, **or**
 - Is legally separated according to state law under a written separation agreement or a decree of separate maintenance and does not live in the same household as their spouse at the end of tax year for which the EITC is being claimed.



Earned Income Tax Credit (EITC)

Schedule EIC Check Box for Married Filing Separately

SCHEDULE EIC
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Earned Income Credit
Qualifying Child Information

▶ Complete and attach to Form 1040 or 1040-SR only if you have a qualifying child.
▶ Go to www.irs.gov/ScheduleEIC for the latest information.

OMB No. 1545-0074

2021


Attachment Sequence No. **43**

Name(s) shown on return Your social security number

If you are separated from your spouse, filing a separate return and meet the requirements to claim the EIC (see instructions), check here

Before you begin:

- See the instructions for Form 1040, lines 27a, 27b, and 27c, to make sure that (a) you can take the EIC, and (b) you have a qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

 • You can't claim the EIC for a child who didn't live with you for more than half of the year.

• If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See the instructions for details.



Communications on EITC ARPA Provision

- **IRS offers overview of tax provisions in American Rescue Plan; retroactive tax benefits help many people now preparing 2020 returns.**
 - IR-2021-106, May 11, 2021: The Internal Revenue Service today provided an overview of some of the key tax provisions in the American Rescue Plan Act.
- **Looking ahead: How the American Rescue Plan affects 2021 taxes, part 1.**
 - COVID Tax Tip 2021-78, June 2, 2021.
- **Looking ahead: How the American Rescue Plan affects 2021 taxes, part 2.**
 - COVID Tax Tip 2021-79, June 3, 2021.
- **EITC Awareness Day**
 - EITC FAQ and many other products are in the process of being developed.



Earned Income Tax Credit (EITC)

Applications and Resources on EITC ARPA

- www.irs.gov, search keyword Earned Income Tax Credit (EITC)
- [EITC Central](#) has tools and information for IRS partners, community organizations, employers, government agencies and offices and tax preparers.
- [Publication 596, Earned Income Credit.](#)
- Publication 501, Dependents, Standard Deduction, and Filing Information.
- Publication 519, U.S. Tax Guide for Aliens.



Earned Income Tax Credit (EITC)

Draft Tax Forms (irs.gov)

- Form 1040 Line 27 a, Check Box for individuals below the age 19.
- Form 1040 Line 27 c, Prior Year Earned Income.

27a	Earned income credit (EIC)	27a	
	<p>Check here if you had not reached the age of 19 by December 31, 2021, and satisfy all other requirements for claiming the EIC. See instructions</p>		
b	Nontaxable combat pay election	27b	
c	Prior year (2019) earned income	27c	



Background

- **Tax Season 2019 Outreach**
 - Experiment Design
 - Experiment Results
 - EITC and CTC Results
- **Tax Season 2020 Outreach Update**
- **Tax Season 2021 Outreach Update**

Conclusions and Further Work



Background

- **An experiment was conducted in Tax Season 2017 on prior paper filers to test whether outreach could influence taxpayers into switching to a free assisted tax preparation method.**
- **Results showed that both the use of free assisted tax preparation and overall filing rates were higher for taxpayers receiving the outreach when compared to the control group of taxpayers.**
- **The Tax Season 2019 study:**
 - Tested messaging on both prior-year paper filers and prior-year nonfilers
 - Measured whether treated taxpayers switched to free assisted preparation via VITA or Free File



Tax Season 2019 Experiment Design: Nonfilers

Outreach: Letters sent in March 2019 with messaging variations regarding information about free assisted tax preparation (VITA and Free File).

Sample Population*: TY2017 nonfilers with income on TY2017 who reporting documents of \$55,000 or less and who live within 30 miles of a VITA site.

Treated Taxpayers: 56,015.

Control Group (no letter): 1,748,405.

* 10% sample of population



Tax Season 2019 Experiment Design: Nonfilers

According to our records, you may qualify for free tax preparation

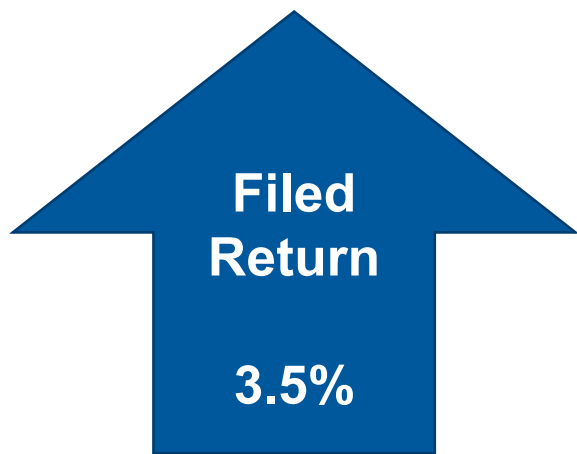
What you need to know	<p>Two out of three taxpayers qualify for free in-person or online tax preparation through an IRS-sponsored program.</p> <p>Benefits you may receive from assisted tax preparation:</p> <ul style="list-style-type: none"> • Getting your refund in as few as three business days. • Access to free commercial software for federal and state returns. • Less chance of making a mistake on your tax return or missing a tax benefit. <p>Read below for information about these free IRS-sponsored programs.</p>		
VITA/TCE programs	<ul style="list-style-type: none"> • The Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs provide free in-person tax preparation assistance by IRS-certified volunteers, regardless of a taxpayer's age. • Most taxpayers qualify if they earned \$55,000 or less in 2018. • Help is available near you. Call for hours of operation: <table border="0"> <tr> <td>Cranes Mill Retirement Comm... 459 Passaic Ave West Caldwell, NJ 07006 (973) 372-2077</td> <td>GPMBC - Montclair United Wa... 60 S Fullerton Ave Montclair, NJ 07042 (800) 906-9887</td> </tr> </table> <ul style="list-style-type: none"> • Be sure to bring photo identification, a copy of your last year's return, Social Security cards, and your tax documents (e.g., Forms W-2 and 1099-MISC). • For more information, visit www.irs.gov/VITA or call 800-906-9887. 	Cranes Mill Retirement Comm... 459 Passaic Ave West Caldwell, NJ 07006 (973) 372-2077	GPMBC - Montclair United Wa... 60 S Fullerton Ave Montclair, NJ 07042 (800) 906-9887
Cranes Mill Retirement Comm... 459 Passaic Ave West Caldwell, NJ 07006 (973) 372-2077	GPMBC - Montclair United Wa... 60 S Fullerton Ave Montclair, NJ 07042 (800) 906-9887		
Free File program	<ul style="list-style-type: none"> • Free File provides free commercial software to help prepare your return online. • Most taxpayers qualify if they earned \$66,000 or less in 2018. • You will need your 2017 tax return, 2018 tax documents, and a valid email address to begin. • For more information, visit www.irs.gov/FreeFile. 		
Frequently asked questions	<ul style="list-style-type: none"> • If you have questions about this letter, you can call 855-421-8641 (toll-free). • You don't need to respond to this letter. 		

Letter 6168 (02-2019)
Catalog Number 72135K



Tax Season 2019 Experiment Results: Nonfilers

The outreach intervention increased filing rates and the usage of free assisted tax preparation methods for TY2018 filings.



Treated: 22.23%
Control: 21.49%



Treated: 1.55%
Control: 1.16%

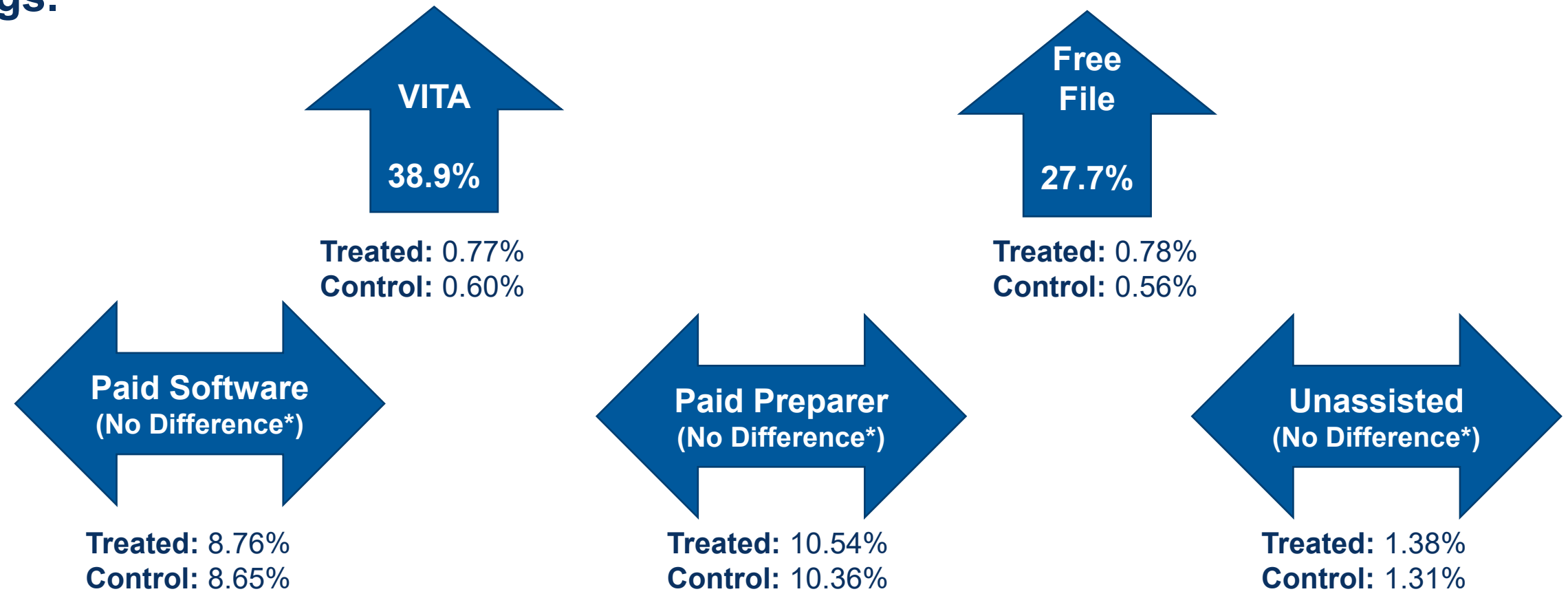
Data was extracted from CDW on 6/03/2021





Tax Season 2019 Experiment Results: Nonfilers

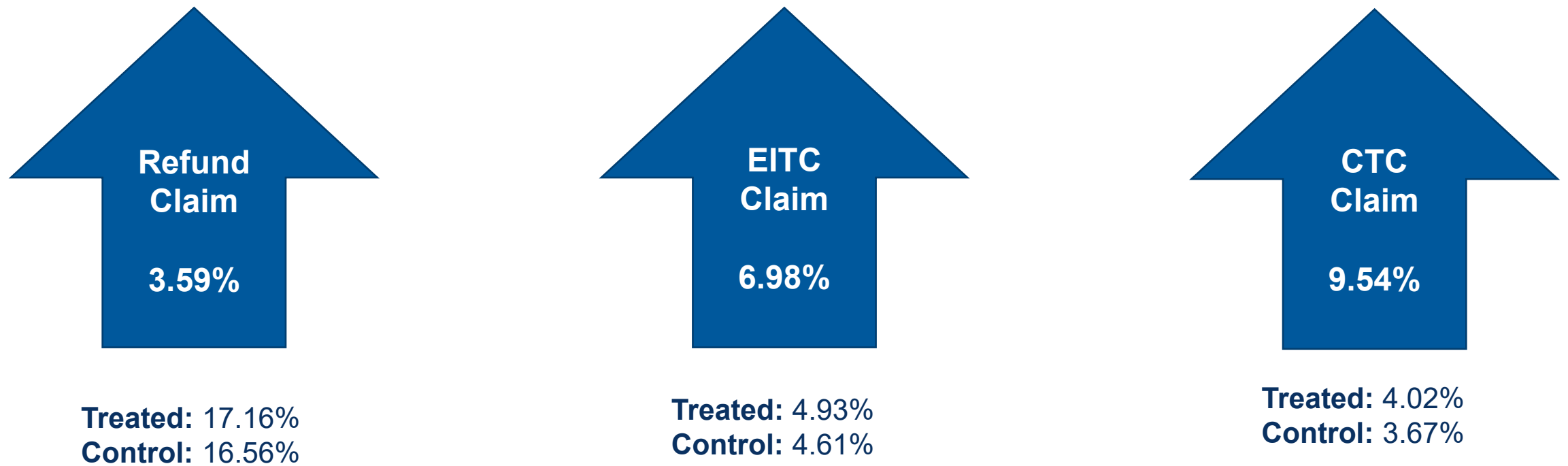
The use of both individual free methods increased, while there were no statistical differences for paid methods or unassisted preparation for TY 2018 filings.





Tax Season 2019 EITC and CTC Results: Nonfilers

Claims for both refunds and EITC and CTC increased with treatment for TY2018 filings



Data was extracted from CDW on 6/03/2021

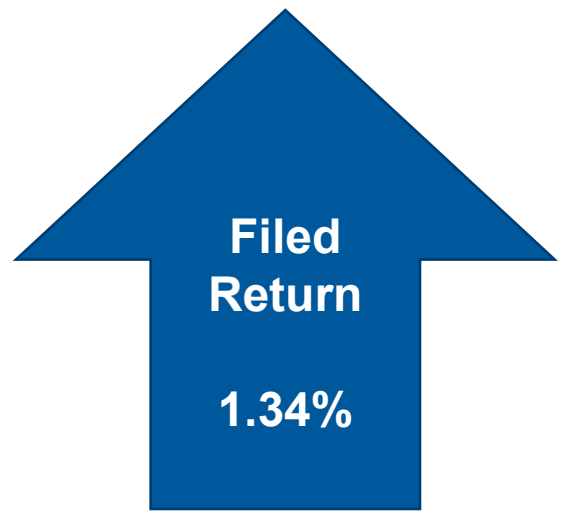


- **Of the taxpayers that were treated and filed a return for TY 2018:**
 - 80.2% claimed refunds for an average of \$2,112
 - 43.4% claimed EITC for an average of \$861
 - 47.2% claimed CTC for an average of \$976
- **Treated taxpayers with at least one qualifying child were about 9% more likely to claim EITC, while there was no significant difference for “no child” EITC claims.**
- **There was no significant effect for persistence on the subsequent tax year (TY 2019) filing on filings or claims.**

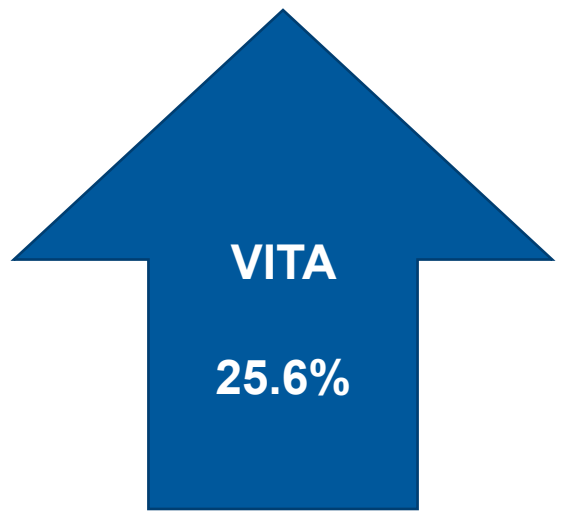


Tax Season 2020 Outreach Update: Paper Filers

- The treated prior-year paper filers had a higher rate of filing and were more likely to use VITA and Free File than the untreated control group
- There was no statistical difference in the rates of refunds, EITC claims, or CTC claims



Treated: 75.3%
Control: 74.3%



Treated: 1.13%
Control: 0.90%

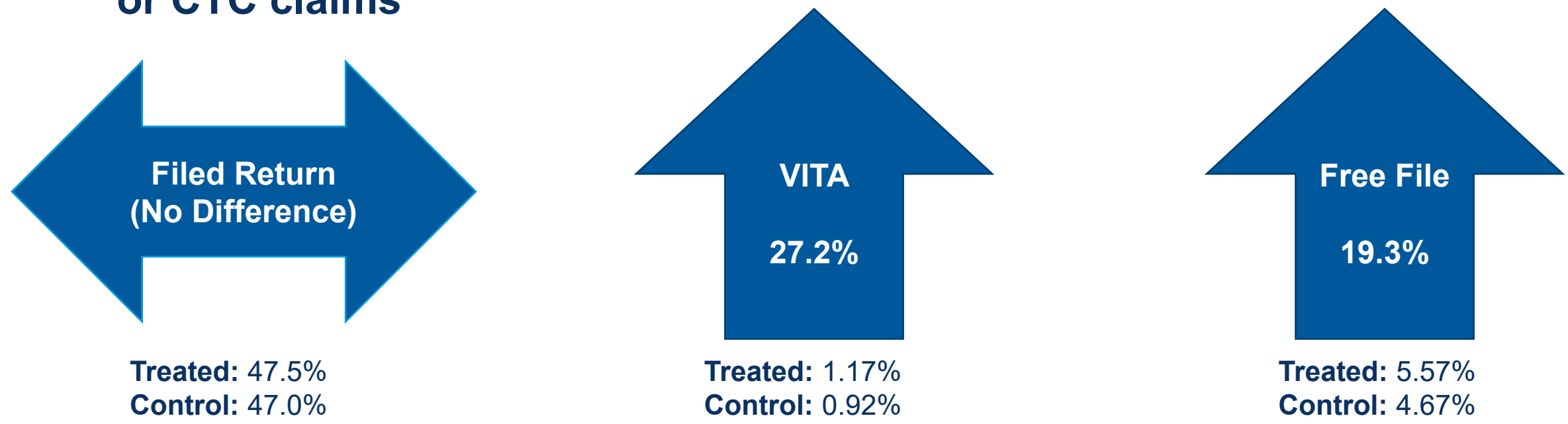


Treated: 6.20%
Control: 5.38%



Tax Season 2020 Outreach Update: Nonfilers

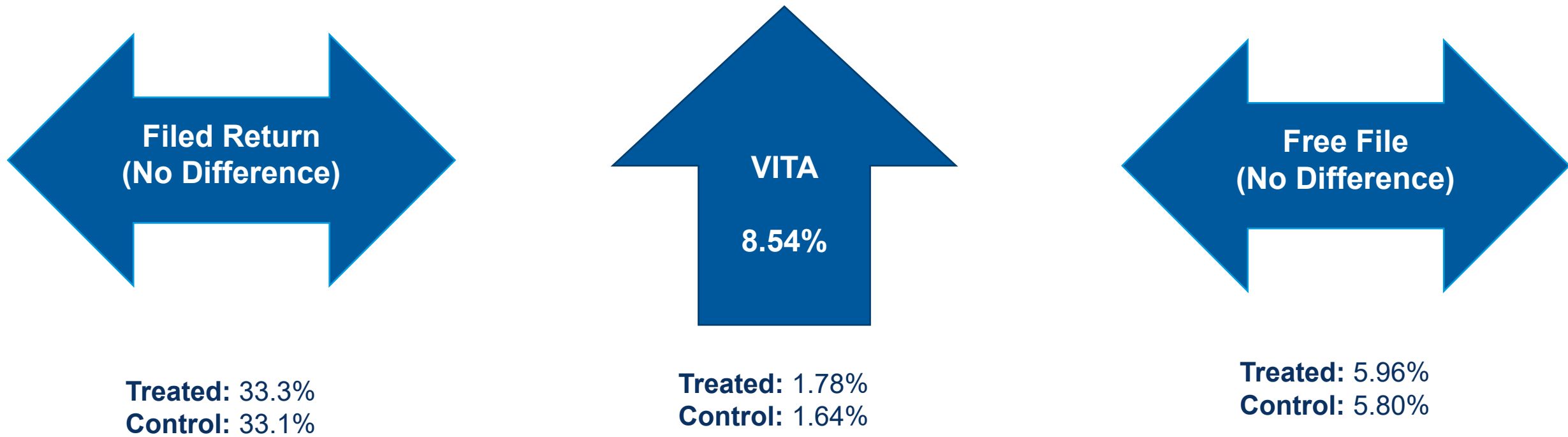
- The treated prior-year nonfilers who filed a TY 2018 return were more likely to use VITA and Free File than individuals in the control group who filed a TY 2018 return, but there was no increase in the rate of filing
- There was no statistical difference in the rates of refunds, EITC claims, or CTC claims





Tax Season 2021 Outreach Update: Nonfilers

- Preliminary analysis shows that treated taxpayers were more likely to use VITA, but there is no statistical difference in filing or the use of Free File
- There was no statistical difference in the rates of refunds, EITC claims, or CTC claims





■ Conclusions

- The 2019 outreach resulted in an increase in filing rates, refund claims, and take-up of EITC and CTC.
 - The refunds were the result of, though not limited to, higher rates of claiming EITC and CTC.
 - While this outreach did not directly include messaging about EITC or CTC, it was still effective in increasing take-up of EITC, CTC, and potentially other credits.
- The 2020 outreach was effective in increasing the use of free assisted tax preparation, even during the pandemic.

■ Further Work

- Analysis of the Tax Season 2021 outreach pilot is expected to be finalized in June 2022.



Overview

- Annual campaign that focuses on helping individual taxpayers prepare for the upcoming filing season
- Encourage taxpayers to take action in the fall to help them file their tax returns timely and accurately next year
- Highlight what taxpayers need to know to be ready to file in 2022
- Messages are shared internally with IRS employees asking them to share with friends and family.

Key Messages

- Create or log in to your online account
- Gather tax records - Notices 1444-C, 6419, Forms W-2s, 1095-A, 1099s for unemployment compensation, and gig work
- Reconcile advance Child Tax Credit payments and advance Premium Tax Credits
- Claim 2021 Recovery Rebate Credit if missing third Economic Impact Payment
- Set expectations for return processing and refund timing

Resources in development

- Revise IRS.gov/Get Ready and related individual web pages
- Revise Get Ready Pub 5348 and Pub 5349
- Implement Get Ready Communications strategy with C&L (news release, tax tips, etc.)
- Add outreach products to OID View 686



Overview

- The American Rescue Plan Act of 2021 enhanced the Child Tax Credit, one of the country's most-used tax credits.
- Millions of American families have received their payments this summer with the majority of the payments issued via direct deposit.
- As of September, IRS delivered payments worth about \$15 billion, reaching about 35 million families across the country.
- We are still encouraging eligible families to sign up for these advance payments
- Remember, they're worth up to \$3,000 for each qualifying child age 6 through 17, and \$3,600 per qualifying child under age 6.
- The deadline to sign up for monthly payments is November 15.
- We continue to raise awareness of the expanded Child Tax Credit, encouraging partners and community groups to share information and use available online tools and toolkits to help non-filers, low-income families and other underserved groups sign up to receive the advance CTC payments.



Reconciling Advance CTC

- It will be very important for taxpayers to be aware they must reconcile their Advance CTC payments with the Child Tax Credit they claim on their 2021 tax returns.
- We will send Letter 6419 which will provide the total amount of advance Child Tax Credit payments families received during 2021.
- This will help taxpayers quickly and accurately fill out their 2021 federal income tax return next year.
- This is important because, for most families, these advance payments only cover half of the total credit.
- They will need to claim the remaining portion on their 2021 tax return.