



Tax Tips

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Looking ahead: How the American Rescue Plan affects 2021 taxes, part 2

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Spanish version: <https://www.irs.gov/es/newsroom/looking-ahead-how-the-american-rescue-plan-affects-2021-taxes-part-2>

This is the second of two tax tips providing an overview of ways the American Rescue Plan may affect some people's 2021 taxes. Part 1 is available on IRS.gov.

Changes expanding EITC for 2021 and beyond

New law changes expand the EITC for 2021 and future years. These changes include:

- More workers and working families who also 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.
- Married but separated spouses who do not file a joint return may qualify to claim the EITC. They qualify if
 - 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
 - Are legally separated according to their state law under a written separation agreement or a decree of separate maintenance and do not live in the same household as their spouse at the end of tax year for which the EITC is being claimed.

Expanded child tax credit for 2021 only

The American Rescue Plan made several notable but temporary changes to child tax credit, including:

- Increasing the amount of the credit
- Making it available for qualifying children who turn age 17 in 2021
- Making it fully refundable for most taxpayers
- Allowing many taxpayers to receive half of the estimated 2021 credit, in advance.

Taxpayers who have qualifying children under age 18 at the end of 2021 can now get the full credit if they have little or no income from a job, business, or other source. Prior to 2021, the credit was worth up to \$2,000 per qualifying child, with the refundable portion limited to \$1,400 per child. The new law increases the credit to as much as \$3,000 per child ages 6 through 17 at the end of 2021, and \$3,600 per child ages 5 and under at the end of 2021. For taxpayers who have their main homes in the United States for more than half of the tax year and bona fide residents of Puerto Rico, the credit is fully refundable, and the \$1,400 limit does not apply.

The maximum credit is available to taxpayers with a modified adjusted gross income of:

- \$75,000 or less for single filers and married persons filing separate returns
- \$112,500 or less for heads of household
- \$150,000 or less for married couples filing a joint return and qualifying widows and widowers

Above these income thresholds, the excess amount over the original \$2,000 credit — either \$1,000 or \$1,600 per child — reduces by \$50 for every \$1,000 in additional modified AGI. The original \$2,000 credit continues to be reduced by \$50 for every \$1,000 that modified AGI is more than \$200,000; \$400,000 for married couples filing a joint return.

Advance child tax credit payments

From July 15 through December 2021, Treasury and the IRS will advance one half of the estimated 2021 child tax credit in monthly payments to eligible taxpayers. Eligible taxpayers are taxpayers who have a main home in the United States for more than half the year. This means the 50 states and the District of Columbia. U.S. military personnel stationed outside the United States on extended active duty are considered to have a main home in the United States.

The monthly advance payments will be estimated from their 2020 tax return, or their 2019 tax return if 2020 information is not available. Advance payments will not be reduced or offset for overdue taxes or other federal or state debts that taxpayers or their spouses owe. Taxpayers will claim the remaining child tax credit based on their 2021 information when they file their 2021 income tax return.