



New Advanced Child Tax Credit

You may have heard in the news or received a letter from the IRS about Advance Child Tax Credit Payments under the American Rescue Plan Act (ARPA). These advance payments will begin on July 15, 2021. While the Child Tax Credit has been around for some time (1997), this is the first time that it will be available in an advanced payment situation. The credit has also been expanded for some taxpayers based on income and age of the child.

This letter is specifically referring to the advanced payment portion of the Act. Some taxpayers may want or need these payments throughout the year for support of their children. Others may not want or need it, and there is an ability to opt out of these advanced payments. This has turned into an either / or situation. Either you can get the credit in advance via direct debit or check payment, or you may opt out of the advanced payments and continue to claim the credit on your tax return to reduce your tax liability on the tax return.

- If you wish to receive these payments in advance, you do not need to do anything and the IRS should be or has already contacted you via mail about the payments.
- If you do not want or need these payments in advance, and would rather keep the credit on your tax return to reduce your tax liability, please visit the following web site to opt out of the advanced payments:

<https://www.irs.gov/credits-deductions/child-tax-credit-update-portal>

You can also perform an internet search for “Advance Child Tax Credit Payments in 2021” and click on the IRS link.

If you do decide to opt out, we have been advised by the IRS that it is easier to opt out using your smart phone than it is to use your desktop or laptop computer. Basically, to opt out, you will need to provide a copy of your driver’s license. It is easier to take a picture with your phone than it is to scan a copy of your driver’s license and upload it to the website.

Under current law, 2021 is the only year with the increased amounts for the child tax credit, whether it is paid in advance or taken on the 2021 tax return. Congress will have to take action to keep the increased amounts each year or make them permanent.

This may have an effect on your tax return. If the advanced payments are taken, you will receive 50% of the credit in advance and 50% on your tax return. This is due to the payments starting halfway through 2021.

Fact Sheet

Another important thing to consider would be a change in income. If your 2020 tax return had income at the levels that allowed you to take the increased credit, but your 2021 income increases over those limits, you might not be entitled to the full amount of credit on your 2021 tax return. If you've already gotten the full expanded amount of credit in advance, you may have to pay some of those advance child tax credit payments back on next year's return.

Some taxpayers may want to opt out because they claim children on the return every other year.

If you would like to discuss this further or have any other questions, please contact us at the office. We may be able to answer your question immediately, but in some cases, there may be tax planning required which will be billed at our professional rates.

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