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Re: Important changes to the child tax credit that may benefit you; please contact our office

Dear Valued Client,

Recently, there were changes made to the child tax credit that may benefit you. As part of the American Rescue Plan Act that was enacted in March 2021, the child tax credit:

* Amount has increased for certain taxpayers
* Raised the age of qualifying children to 17 from 16
* Is fully refundable (meaning you can receive it even if you don’t owe the IRS)
* May be partially received, in advance, in monthly payments (starting July 15, 2021)

The IRS will automatically start paying half of the credit they calculate you may be eligible for, based on your 2019 or 2020 tax return, in the form of advance monthly payments beginning July 15, 2021. The IRS will send you a ***Letter 6419*** in January of the following year if you received any of these advance monthly payments. You will need to provide this letter to us when you give us your tax documents, so *please do not throw it away*. Eligible taxpayers will then claim the other half of the credit when they file their 2021 income tax return.

Though these tax changes are temporary and for now only apply to the 2021 tax year, they may present important cashflow and financial planning opportunities today. It is also important to note that the monthly advance of the child tax credit is a significant change. The credit is normally part of your income tax return and would reduce your tax liability or increase your refund. The choice, to have the child tax credit advanced or electing to not have it advanced, will affect your refund or amount due when you file your 2021 tax return. To avoid any surprises, please contact our office so that we can assist you in understanding how it will impact you and your family.

**Qualifications and how much to expect**

The child tax credit and advance payments are based on several factors, including the age of your children and your income.

* The credit for children ages five and younger is up to $3,600 –– with up to $300 received in monthly payments.
* The credit for children ages six to 17 is up to $3,000 –– with up to $250 received in monthly payments.

To qualify for the child tax credit monthly payments, you (and your spouse if you file a joint tax return) must have:

* Filed a 2019 or 2020 tax return and claimed the child tax credit or given the IRS your information using the non-filer tool
* A main home in the U.S. for more than half the year or file a joint return with a spouse who has a main home in the U.S. for more than half the year
* A qualifying child who is under age 18 at the end of 2021 and who has a valid Social Security number
* Income less than certain limits

You can take full advantage of the credit if your income (specifically, your modified adjusted gross income) is less than $75,000 for single filers, $150,000 for married filing jointly filers and $112,500 for head of household filers. The credit begins to phase out above those thresholds and for higher-income families (e.g., married filing jointly couples with $400,000 or less in income or other filers with $200,000 or less in income) will generally get the same credit as prior law (generally $2,000 per qualifying child) but may also choose to receive monthly payments.

Taxpayers who wish to receive the advance of the credit generally won’t need to do anything to receive any advance payments as the IRS will use the information it has on file to start issuing the payments. However, if you desire to not receive the advance payments of the credit, immediate action is required to elect out and, if you file as married filing jointly, both spouses must make the same election, individually. For separated or divorced parents, it may be advisable that you both elect out of the advance of the credit, especially if you alternate years for claiming your child(ren).

**IRS’s child tax credit update portal**

Using the IRS’s [child tax credit and update portal](https://www.irs.gov/credits-deductions/child-tax-credit-update-portal), taxpayers can update their information to reflect any new information that might impact their child tax credit amount, such as a change in filing status or number of children. Parents can use the online portal to elect out of the advance payments or check on the status of payments and update address and/or bank account information. At this time, this tool is only available for individuals with a valid, unexpired state ID, Driver’s license, or passport with a valid social security number, or individuals who have an irs.gov login. Currently, taxpayers with an ITIN have no options available to them to make changes to their accounts. Please check back with the IRS for updates to their site. On the IRS portal, they stipulate that once you make the election to opt out of receiving the advance payments, that you cannot re-enroll.

The IRS also has a [non-filer portal](https://www.irs.gov/credits-deductions/child-tax-credit-non-filer-sign-up-tool) to use for certain situations.

**Let us help you.**

With any tax law change, it’s important to revisit your full financial roadmap. We can help you determine how much credit you may be entitled to and whether advance payments are appropriate. How you choose to receive the credit (partially advanced via monthly payments or solely on your next year’s return) could have many impacts to your financial plans.

Please contact our office today at 918-254-5525 to discuss your specific situation. As always, planning ahead can help you maximize your family’s financial situation and position you for greater success.

Sincerely,

Steven L Wilson & Associates, CPAs, LLP