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# The Expanded Child Tax Credit for 2021: Frequently Asked Questions (FAQs)

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# Contents

A. American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) Expansion of the Child Credit ..... 2
A1. How did the child credit work before the ARPA expansion? ..... 2
A2. How did ARPA change the child credit? ..... 3
A3. What features of the credit were unchanged by ARPA? ..... 5
A4: Can Americans living abroad receive the fully refundable child credit? ..... 5
A5. Are servicemembers stationed overseas eligible for the ARPA-expanded child credit? ..... 6
A6: Can noncitizens receive the ARPA-expanded child credit? ..... 6
A7: Can unauthorized noncitizens (sometimes referred to as "undocumented immigrants") receive the ARPA-expanded child credit? ..... 7
A8. How long are the ARPA changes in effect? ..... 7
A9. How much is the ARPA expansion of the child credit expected to cost (i.e., the budgetary impact)? ..... 9
A10: How do taxpayers with children at different income levels benefit from the ARPA-expanded child credit? ..... 10
B. Administration of the ARPA-Expanded Child Credit ..... 11
B1. How was the ARPA-expanded child credit issued? ..... 11
B2. How were the monthly advance payments calculated? ..... 11
B3. Could taxpayers opt out of the advance payment program? ..... 11
B4. Were monthly payment amounts adjusted when the IRS received new information? ..... 12
B5. Was there an income threshold above which advance payments were *not* issued? ..... 14
B6. Did otherwise eligible households who, due to their low incomes, do not normally file a tax return, automatically receive the advance payments? ..... 14
B7. Were there any limitations on how the advance payments of the credit could be spent? ..... 14
B8: How will taxpayers determine the amount of the credit they can claim on their 2021 income tax return? ..... 15
B9. Will taxpayers need to pay back excess amounts of the child credit? ..... 15
B10. How does the "safe harbor" work? ..... 15
B11. Could the advance payments of the credit and/or the credit claimed on 2021 income tax returns be reduced for child support or other debts? ..... 16
B12. Does receipt of the credit—either in the form of advance payments or claimed on a tax return—affect eligibility for other government programs? ..... 16
B13. Is the ARPA-expanded child credit—either in the form of advance payments or claimed on a tax return—taxable? ..... 17
B14. Did Treasury update wage withholding schedules to reflect that up to half of the credit was issued as advance payments before 2021 tax returns are filed? ..... 17
B15. How many advance payments of the 2021 credit were issued? ..... 17
C. Territorial Residents and the Child Credit ..... 18
C1. Did territorial residents receive the child credit *before* ARPA? ..... 18
C2. How did ARPA change the child credit for territorial residents in 2021? ..... 19
C3. Did territorial residents receive the advance payments of the 2021 credit? ..... 19
C4. How did ARPA change the child credit for territorial residents after 2021? ..... 20

## Figures

Figure 1. Child Credit Amount by Income in 2021 Before and After ARPA ..... 4

## Tables

Table 1. Selected Parameters of the Child Tax Credit Under Current Law ..... 8
Table 2. Share of Taxpayers with Children Who Receive the Child Credit and Credit Amount by Income Percentile in 2021, Before and After ARPA ..... 10
Table 3. Advanced Payments of the 2021 ARPA-Expanded Child Credit by Month ..... 17

Table A-1. Selected Research on the ARPA-Expanded Child Credit's Impact on Poverty and Economic Security ..... 21
Table D-1. Steps for Reconciling Advance Payments of the Child Credit with the Actual Credit on 2021 Income Tax Returns ..... 38
Table E-1. Child Tax Credit for Residents of the Territories ..... 41

## Appendixes

Appendix A. Selected Research on the ARPA-Expanded Child Credit ..... 21
Appendix B. Congressional Resources ..... 32
Appendix C. IRS and Treasury Resources on the ARPA-Expanded Child Credit for 2021 ..... 34
Appendix D. Steps to Reconcile Excess Advance Payments of the Child Credit Due to an Incorrect Number of Qualifying Children ..... 38
Appendix E. The Child Credit and Residents of U.S. Territories ..... 41

## Contacts

Author Information ..... 44

In March of 2021, Congress passed legislation significantly expanding the child tax credit for one year as part of the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). ARPA expanded the eligibility for and the amount of the credit for 2021, especially for low- and middle-income taxpayers. The law also directed the Treasury Secretary to establish a program to advance up to half of the total credit amount *before* 2021 income taxes are filed. This is a departure from most other tax benefits, which are typically delivered annually in a lump sum after federal income tax returns are filed.

The 117th Congress is considering proposals to extend and/or modify the temporary child credit expansion included in APRA. In April 2021, House Ways and Means Committee Chairman Richard Neal released a discussion draft of the Building an Economy for Families Act that included a provision to permanently extend the ARPA changes to the child credit.[1] The Biden Administration proposed making the full refundability provision included in ARPA permanent, while extending other ARPA provisions through the end of 2025.[2] At the end of September 2021, the House Budget Committee reported the Build Back Better Act (BBBA; H.R. 5376), which would have effectively extended the ARPA-expanded credit for four years through the end of 2025 and permanently made the credit fully refundable.[3] On November 19, 2021, BBBA passed the House of Representatives. Unlike the House Budget Committee version of the BBBA, the House-passed version would extend the 2021 expansion of the child credit for *one year* (2022), while also making the credit fully refundable permanently beginning in 2023.[4] On December 11, 2021, the Senate Finance Committee released updated text of the tax provisions of the BBBA. With respect to the child tax credit provisions, the updated Finance Committee text is virtually identical to the House-passed BBBA.[5]

This report provides answers to selected frequently asked questions (FAQs) about the ARPA-expanded child credit for 2021. Additional resources may be found in the report's appendices:

- **Appendix A**: a selected compilation of research studies;
- **Appendix B**: a selected compilation of resources provided by Congress;

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[1] See House Committee on Ways and Means, "Chairman Neal Unveils Groundbreaking Proposal to Reshape the American Economy," press release, April 27, 2021, https://waysandmeans.house.gov/media-center/press-releases/chairman-neal-unveils-groundbreaking-proposal-reshape-american-economy.

[2] See U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2022 Proposals*, May 2021, https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals; and CRS Insight IN11656, *The Child Tax Credit: How Would the Biden Administration's Proposed American Families Plan Change the Child Tax Credit?*

[3] For more information, see CRS Report R46923, *Tax Provisions in the "Build Back Better Act:" The House Ways and Means Committee's Legislative Recommendations*, coordinated by Molly F. Sherlock; and CRS Insight IN11757, *The Child Tax Credit Under the House Ways and Means Committee "Build Back Better" Reconciliation Language: Summary Table of Changes*, by Margot L. Crandall-Hollick.

[4] For more information on the child tax credit provisions in the House-passed BBBA, see CRS Insight IN11786, *The Child Tax Credit in the House-Passed Build Back Better Act: Summary Table*, by Margot L. Crandall-Hollick.

Between when the House Budget Committee reported the bill in September and House passage in November, two modified versions of the legislation were posted on the House Rules Committee website on October 28, 2021, and then on November 3, 2021. For the October 28, 2021, modified version of the Build Back Better Act (BBBA; H.R. 5376) see https://docs.house.gov/meetings/RU/RU00/20211028/114202/BILLS-117117-17ih.pdf. This legislative text reflected the Biden Administration's framework released earlier that day. The White House, "President Biden Announces the Build Back Better Framework," October 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/28/president-biden-announces-the-build-back-better-framework/. For the November 3 modified text, see https://rules.house.gov/sites/democrats.rules.house.gov/files/BILLS-117HR5376RH-RCP117-18.pdf.

[5] For more information, see CRS Insight IN11827, *The Child Tax Credit in the Senate Finance Committee Text of the Build Back Better Act: Summary Table*, by Margot L. Crandall-Hollick.

- **Appendix C**: a selected compilation of resources provided by Treasury and the Internal Revenue Service (IRS);
- **Appendix D**: a detailed explanation of the safe harbor rules; and
- **Appendix E**: a reference table on the child credit in the U.S. territories.

# A. American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) Expansion of the Child Credit

## A1. How did the child credit work before the ARPA expansion?

Prior to ARPA, the child tax credit allowed eligible taxpayers to reduce their federal income tax liability by up to $2,000 per qualifying child. For example, a family with three qualifying children could reduce their income tax liability by up to $6,000. A qualifying child was generally any dependent child under 17 years old. The credit was reduced in value, or phased out, by $50 for every $1,000 of income over $200,000 ($400,000 for married couples who filed joint tax returns).[6]

If a taxpayer's income tax liability was *less than* the maximum value of the child tax credit, the taxpayer was generally eligible to receive all or part of the difference as the refundable portion of the credit. The refundable portion—the amount greater than income taxes owed—is referred to as the additional child tax credit (ACTC) and was generally calculated using what is commonly referred to as "the earned income formula."[7] Under the earned income formula, the ACTC gradually increased, or phased in, as earned income rose above $2,500. The maximum amount of the ACTC was $1,400 per qualifying child. CRS estimates that about one in every five taxpayers (19%) with a credit-eligible child had low incomes that resulted in them receiving less than the maximum credit.[8]

After 2021, the ARPA expansion is scheduled to expire. The credit will then revert to the prior-law parameters described above, which were included in P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act or TCJA. The TCJA modifications are scheduled to expire at the end of 2025 (see **Table 1**).[9]

Prior to ARPA, like other tax benefits, the child credit was received once a year after a taxpayer filed their income tax return (i.e., as part of their income tax refund).

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[6] For the purposes of phasing out the child credit, income is defined as modified adjusted gross income (MAGI). Prior to *and* after the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2), MAGI for the child credit equals adjusted gross income (AGI) increased by foreign earned income of U.S. citizens abroad, including income earned in Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico. Hence, for most taxpayers, the income used to phase out their child credit is their AGI.

[7] All families with three or more qualifying children could also calculate the ACTC using an alternative formula. The alternative formula is the amount by which Social Security taxes paid exceed the earned income tax credit (EITC) up to the maximum refundable credit. Taxpayers could claim whichever ACTC was larger—the ACTC calculated under the earned income formula or under the alternative formula. But for most families who can calculate the ACTC under either formula (i.e., families with three or more qualifying children), the ACTC under the earned income formula was larger than the ACTC under the alternative formula.

[8] See Figure 1 in CRS Report R46502, *The Child Tax Credit: Selected Legislative Proposals in the 116th Congress*.

[9] For more information on the current-law parameters of the child credit after 2025, see CRS Report R41873, *The Child Tax Credit: How It Works and Who Receives It*.

## A2. How did ARPA change the child credit?

ARPA made three main changes to the child credit that affect the credit amount, especially for eligible low- and moderate-income taxpayers. The law also temporarily changed how the credit was delivered. These changes are temporary and in effect for one year—2021.

The three changes that affect the credit amount are as follows:

- **Expanding eligibility to 17-year-olds:** The law increased the maximum age for an eligible child from 16 to 17.[10]
- **Making the credit fully refundable:** The law eliminated the ACTC phase-in based on earned income and eliminated the ACTC cap of $1,400 per child.[11] Hence, the child credit for 2021 is "fully refundable" and the full value is available to otherwise eligible taxpayers with no earned income (i.e., it is available to taxpayers who do not work). Full refundability is generally only available to taxpayers who live in the United States for at least half of 2021 (this is sometimes referred to as the "principal place of abode requirement").[12]
- **Increasing the maximum credit amount, with larger increases for younger children:** The law increased the maximum amount of the credit from $2,000 per child to $3,600 per child for a young child (0-5 years old) and $3,000 per child for an older child (6-17 years old).

Full refundability and the larger maximum credit will generally increase the credit amount for low- and moderate-income taxpayers, as illustrated in **Figure 1** (low- and moderate-income taxpayers may also receive a larger credit as a result of expanding the eligibility age to include 17-year-olds). Higher-income families will generally receive the same benefit as under prior law (although some with an eligible 17-year-old may also receive a larger credit).

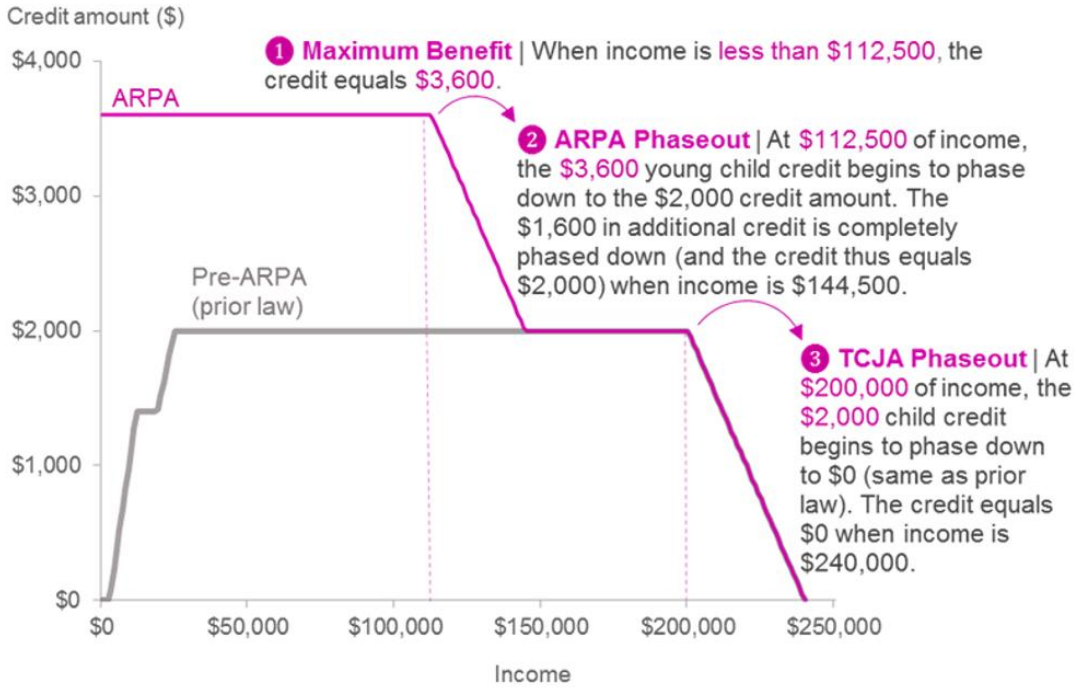
[10] The age of the child for a given year's child credit is based on their age on December 31 of that year. In other words, for the 2021 child credit, a child who is 17 years old on December 31, 2021, is considered 17 years old for the purposes of the credit.

[11] The law also eliminated the calculation of the ACTC under the alternative formula. See footnote 7.

[12] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021.

**Figure 1. Child Credit Amount by Income in 2021 Before and After ARPA**

Unmarried Taxpayer with One Young Child




**Sources:** CRS calculations based on Internal Revenue Code §24 and P.L. 117-2.

**Notes:** A stylized example assuming the taxpayer has one qualifying child and all income is earned income, with no other sources of income and no above-the-line deductions claimed. Unmarried taxpayers with child credit-qualifying children are assumed in this example to file as head of household. For more examples, see CRS Insight IN11613, *The Child Tax Credit: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*.

This increase in the maximum child credit—an increase of $1,600 per young child and $1,000 per older child—phases out by $50 for every $1,000 over specified thresholds until the credit amount equals the current-law maximum of $2,000 per child, as illustrated in **Figure 1**. These thresholds are $112,500 for head of household filers and $150,000 for married joint filers.[13] The thresholds are sometimes referred to as the "first thresholds" or "ARPA thresholds." (The actual income level at which the credit phases down to $2,000 per child depends on the number and age of qualifying children.) For many families, the credit then plateaus at its prior-law level of $2,000 per child and phases out when income exceeds the current-law threshold of $200,000 ($400,000 for married joint filers).[14] These thresholds are sometimes referred to as the "second thresholds"

[13] This threshold also applies to surviving spouses as defined in IRC §2(a). In addition, taxpayers who file as married filing separately or taxpayers who file as singles are subject to a $75,000 threshold. Single filers who can only claim a child tax credit-qualifying child under IRC §152(e), but cannot claim that child under IRC §152(c) (and who have no other dependents for tax purposes) generally may not file as a head of household.

[14] The law states that up until a taxpayer's income reaches $75,000 if single, $112,500 if head of household, and $150,000 if married filing jointly, they will receive the maximum child tax credit amount. This amount is equal to $3,600 multiplied by the number of qualifying children under six years old, plus $3,000 multiplied by the number of qualifying children 6 to 17 years old. After this "first threshold" (i.e., the "ARPA threshold"), the credit amount begins to phase down by $50 for each $1,000 over the threshold. The amount by which the credit phases down is limited to the lesser of (a) the "applicable credit increase amount" (the difference between the ARPA credit and the prior-law credit in 2021) or (b) 5% of the "applicable phaseout range" (the difference between the $200,000 and $400,000 phaseouts

or "TCJA thresholds." (The name is in reference to the law—commonly referred to as the Tax Cuts and Jobs Act [TCJA; P.L. 115-97] that established these thresholds.)

ARPA also temporarily changed the way the credit is delivered, advancing half of the total 2021 credit in six monthly payments between July and December 2021 (see "B. Administration of the ARPA-Expanded Child Credit"). The remaining half of the credit can be claimed on 2021 income tax returns filed in 2022.

## A3. What features of the credit were unchanged by ARPA?

Aside from changing the credit amount for some taxpayers and advancing a portion of the credit (see "A2. How did ARPA change the child credit?"), ARPA generally left other parameters of the credit unchanged. Notably, these include the definition of a qualifying child and the taxpayer ID requirements of a qualifying child. Specifically, a qualifying child must still meet various requirements including being related to the taxpayer (the relationship test) and living with the taxpayer for more than half the year (the residency test). In addition, through 2025, the taxpayer must provide a qualifying child's social security number (SSN) associated with work authorization in order to receive the credit.[15]

## A4: Can Americans living abroad receive the fully refundable child credit?

Generally, no, although if they owe enough in income taxes they may still benefit from other aspects of the ARPA expansion. In order to receive the full amount of the ARPA-expanded credit (*and* be eligible for the monthly advance payments of the credit in 2021), taxpayers must live in the United States for more than half of 2021 (there is an exception for servicemembers, described in "A5. Are servicemembers stationed overseas eligible for the ARPA-expanded child credit?").[16] Specifically, full refundability applies to taxpayers whose principal place of abode is the United States for over half of 2021. Among married joint filers, only one spouse must fulfill this principal place of abode requirement.[17]

Taxpayers who do not fulfill this requirement (i.e., "expats") but are otherwise eligible to receive the credit may generally calculate and claim the credit when they file their federal income tax return. Insofar as these taxpayers can receive some or all of the credit in the form of the ACTC, they will either calculate the ACTC under the earned income formula (or alternative formula) if they *do not* claim the foreign earned income exclusion or be ineligible for the ACTC if they *do* claim the foreign earned income exclusion.[18] (These are the same rules as applied before ARPA.)

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enacted under the TCJA and the $75,000, $112,500, and $150,000 phaseouts in ARPA). Notably, 5% of the applicable phaseout range equals $6,250 if single, $4,375 if head of household, and $12,500 if a married joint filer. After the total credit has been phased down by the lesser of (a) or (b), it then remains at its pre-ARPA level until it is phased out again under the pre-ARPA threshold of $200,000 or $400,000 if married filing jointly (also referred to as the "TCJA threshold").

[15] For more information, see "Definition of a Qualifying Child" in CRS Report R41873, *The Child Tax Credit: How It Works and Who Receives It*.

[16] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021. In the case of the advance payments of the 2021 child credit, the IRS will determine if the taxpayer meets the principal place of abode requirement for the reference year used to calculate the advance amount. In most cases the reference year is 2020, but if a taxpayer has not filed a 2020 return, a 2019 return may be used.

[17] The draft IRS Schedule 8812, *Credits for Qualifying Children and Other Dependents*, includes a question on line 13 asking if a taxpayer has a principal place of abode in the United States for more than half of 2021. See https://www.irs.gov/pub/irs-dft/f1040s8—dft.pdf.

[18] See IRC §24(d)(3). Under current law (IRC §911), U.S. citizens and resident aliens who live abroad are generally

For example, if an otherwise eligible taxpayer lived outside the United States in 2021 with two qualifying young children, they could be eligible for up to $7,200 in the 2021 child tax credit, if they had sufficient U.S. income tax liability. However, the maximum amount they could claim as the ACTC would be either $2,800 if they did not claim the foreign earned income exclusion, or $0 if they did.

## A5. Are servicemembers stationed overseas eligible for the ARPA-expanded child credit?

Generally, yes. The principal place of abode requirement for the ARPA-expanded credit is defined by reference to Internal Revenue Code (IRC) Section 32(c)(4), including the special military rule:

> the principal place of abode of a member of the Armed Forces of the United States shall be treated as in the United States during any period during which such member is stationed outside the United States while serving on extended active duty with the Armed Forces of the United States. For purposes of the preceding sentence, the term "extended active duty" means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

## A6: Can noncitizens receive the ARPA-expanded child credit?

Yes, in certain cases. Eligibility for the child credit is not explicitly based on a taxpayer's citizenship status or on their qualifying child's citizenship status. However, other parameters of the credit may indirectly limit some noncitizens' ability to receive all or some of the ARPA-expanded credit. These parameters are briefly discussed below.

First, all taxpayers—citizens and noncitizens alike—must live in the United States for more than half of 2021 in order to be eligible for the full refundability provision of the credit.[19] (This is sometimes referred to as the "principal place of abode" requirement for full refundability.)[20] Second, under existing law, a qualifying child must be a U.S. citizen or U.S. national, and if not a U.S. citizen or national, the child must be a resident of the United States.[21] Finally, a taxpayer must provide an SSN for each qualifying child in order to claim the benefit.[22] This SSN must be

taxed on their worldwide income. In certain cases, these taxpayers may be eligible to exclude some or all of their foreign earned income when calculating their U.S. federal income tax liability. In 2022, the maximum amount that can be excluded is $112,000 per person.

[19] Full refundability is also available to taxpayers who are bona fide residents of Puerto Rico for 2021. Otherwise eligible taxpayers—citizens and noncitizens alike—who do not satisfy this "principal place of abode" requirement are still eligible for the larger credit (up to $3,600 per young child and $3,000 per older child) and are still eligible to claim the credit for 17-year-olds. Hence, in cases where (1) the principal place of abode requirement is not met; (2) the credit amount exceeds their income tax liability; and (3) the taxpayer is claiming some or all of the credit in the form of the ACTC, then the taxpayer will calculate the ACTC using earned income (they may also calculate under the alternative formula if that yields a larger ACTC). In other words, their ACTC will be calculated as 15% of earned income over $2,500 up to $1,400 child (adjusted for inflation).

[20] Among married taxpayers who file a joint return, this "principal place of abode" requirement must be met by at least one spouse. Taxpayers who participate in the credit's advanced payment program also must fulfill this principal place of abode requirement as documented on their 2020 income tax return (or if those data are not available, their 2019 income tax return).

[21] See IRC §24(c)(2). Children are considered to be a resident of the United States if they pass the tests to be considered a resident alien for tax purposes. For more information, see the answer to question 1 in CRS Report R43840, *Federal Income Taxes and Noncitizens: Frequently Asked Questions*. In addition, whereas all U.S. citizens are considered U.S. nationals, not all nationals are considered citizens. Noncitizen U.S. nationals include persons born in certain U.S. territories, such as American Samoa.

[22] According to a study by the Pew Research Center, "In 2016, 5.6 million children younger than 18 were living with

associated with work authorization, meaning an SSN issued solely to receive a public benefit does not qualify. These types of work-authorized SSNs are generally provided to all U.S. citizen children and certain noncitizen children, including legal permanent residents (i.e., "green card holders"), refugees, and asylees.[23] Eligible taxpayers claiming the credit must provide either an SSN or an individual taxpayer identification number (ITIN) to receive the credit. (Individuals who are not eligible to receive an SSN are required to use an ITIN when filing their tax returns and other documents with the IRS.[24])

Hence, a noncitizen taxpayer who (1) lives in the United States for at least half of 2021; (2) has a taxpayer ID (which can be either an SSN issued from the Social Security Administration or, if ineligible for an SSN, an ITIN issued by the IRS); and (3) has a qualifying child with a work-authorized SSN who is either a U.S. citizen, national, or resident would generally be eligible for the ARPA-expanded child credit.

## A7: Can unauthorized noncitizens (sometimes referred to as "undocumented immigrants") receive the ARPA-expanded child credit?[25]

Yes, in certain cases. For the purposes of the child credit, a taxpayer's eligibility to claim the credit is not based on their immigration status. Instead, any noncitizen, irrespective of their immigration status, may generally be able to claim the ARPA-expanded child credit if

1. their principal place of abode for more than half of 2021 is the United States;
2. the taxpayer has either an SSN, or if they are ineligible for an SSN, an ITIN;
3. the taxpayer's child meets all eligibility requirements including that they are a U.S. citizen, a U.S. national, or a resident of the United States; and
4. the taxpayer's qualifying child has an SSN associated with work authorization.

Hence, there could be cases where a noncitizen taxpayer who is "undocumented" or who is not authorized to work in the United States could be eligible for the ARPA-expanded child credit. For example, an "undocumented" noncitizen living in the United States with a U.S. citizen child could be eligible for the ARPA-expanded child credit.

## A8. How long are the ARPA changes in effect?

The ARPA changes to the child credit are only in effect for 2021 and only affect the credit as claimed on 2021 income tax returns. The ARPA changes to the credit are themselves layered upon other changes in effect from 2018 through 2025, which were enacted by P.L. 115-97 (commonly referred to as the Tax Cuts and Jobs Act or TCJA). Hence, after 2021, the credit is scheduled to

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unauthorized immigrant parents. Of these, 675,000 were unauthorized immigrants themselves." It is unclear what share of those 675,000 children do not have SSNs, nor is it clear how these figures have changed over time. Nonetheless, this estimate may provide a sense of the number of children who cannot be claimed for the child credit under existing taxpayer ID requirements. Jeffrey Passel and D'Vera Cohn, *U.S. Unauthorized Immigrant Total Dips to Lowest Level in a Decade*, Pew Research Center, November 27, 2018, https://www.pewresearch.org/hispanic/2018/11/27/u-s-unauthorized-immigrant-total-dips-to-lowest-level-in-a-decade/.

[23] For more information, see Congressional Distribution Memorandum CD1321564, *Noncitizen Eligibility for a Work-Authorized Social Security Number (SSN)*.

[24] For more information on individual taxpayer identification numbers (ITINs), see CRS Report R43840, *Federal Income Taxes and Noncitizens: Frequently Asked Questions*.

[25] Unauthorized noncitizens include those who have entered the United States without inspection or have overstayed their period of lawful admission (*overstays*). For more information, see CRS In Focus IF11806, *Citizenship and Immigration Statuses of the U.S. Foreign-Born Population*.

revert to prior-law TCJA parameters until 2025. After 2025, the credit would generally revert to its pre-TCJA parameters under current law, as illustrated in **Table 1**.

**Table 1. Selected Parameters of the Child Tax Credit Under Current Law**

| Parameter | **Pre-2018** permanent law | **2018-2020** permanent law, as amended by the TCJA | **2021** permanent law, as amended by the TCJA and ARPA | **2022-2025** permanent law, as amended by the TCJA | **Post-2025** permanent law |
|---|---|---|---|---|---|
| **Maximum amount of the credit per child**[a] | $1,000 per child 0-16 years old<br>*not adjusted for inflation* | $2,000 per child 0-16 years old<br>*not adjusted for inflation* | $3,600 per child 0-5 years old<br>$3,000 per child 6-17 years old<br>*not adjusted for inflation* | $2,000 per child 0-16 years old<br>*not adjusted for inflation* | $1,000 per child 0-16 years old<br>*not adjusted for inflation* |
| **Maximum ACTC per child**[a] [b]<br>*Maximum amount of the refundable portion of the credit for low-income taxpayers* | $1,000 per child 0-16 years old<br>*not adjusted for inflation* | $1,400 per child 0-16 years old<br>*adjusted for inflation* | $3,600 per child 0-5 years old<br>$3,000 per child 6-17 years old<br>*not adjusted for inflation* | $1,400 per child 0-16 years old<br>*adjusted for inflation: $1,500 in 2022 after adjustment.* | $1,000 per child 0-16 years old<br>*not adjusted for inflation* |
| **ACTC calculation** | Phased-in amount calculated based on earned income formula: 15% of earned income above $3,000 not to exceed the maximum ACTC. | Phased-in amount calculated based on earned income formula: 15% of earned income above $2,500 not to exceed maximum ACTC. | Fully refundable: The phased-in credit for low-income taxpayers based on earned income is eliminated such that low-income taxpayers can receive the maximum credit amount. | Phased-in amount calculated based on earned income formula: 15% of earned income above $2,500 not to exceed maximum ACTC. | Phased-in amount calculated based on earned income formula: 15% of earned income above $3,000 not to exceed the maximum ACTC. |
| **Phaseout Threshold**<br>*MFJ: married filing jointly*<br>*HOH: head of household*<br>*S: single* | $110,000 MFJ[c]<br>$75,000 HOH<br>$75,000 S[d]<br>*not adjusted for inflation* | $400,000 MFJ<br>$200,000 HOH<br>$200,000 S[e]<br>*not adjusted for inflation* | **Initial Threshold:** Phaseout of Increased Credit<br>$150,000 MFJ[f]<br>$112,500 HOH<br>$75,000 S[g]<br>*not adjusted for inflation*<br><br>**Second Threshold:** Phaseout of pre-ARPA credit<br>$400,000 MFJ<br>$200,000 HOH<br>$200,000 S[e] | $400,000 MFJ<br>$200,000 HOH<br>$200,000 S[e]<br>*not adjusted for inflation* | $110,000 MFJ[c]<br>$75,000 HOH<br>$75,000 S[d]<br>*not adjusted for inflation* |

| Parameter | **Pre-2018** permanent law | **2018-2020** permanent law, as amended by the TCJA | **2021** permanent law, as amended by the TCJA and ARPA | **2022-2025** permanent law, as amended by the TCJA | **Post-2025** permanent law |
|---|---|---|---|---|---|
| | | | *not adjusted for inflation* | | |
| Child ID Requirements | Any taxpayer ID (SSN / ITIN / ATIN) | work-authorized SSN | work-authorized SSN | work-authorized SSN | Any taxpayer ID (SSN / ITIN / ATIN) |
| Maximum Child Age (at the end of the year) | 16 | 16 | 17 | 16 | 16 |
| Method of Receipt | Claimed on tax return | Claimed on tax return | 50% advanced; remainder claimed on tax return | Claimed on tax return | Claimed on tax return |

**Source:** Internal Revenue Code, 26 U.S.C. §24. TCJA refers to P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act. ARPA refers to P.L. 117-2, the American Rescue Plan Act of 2021.

a. The maximum credit amount per taxpayer is the maximum amount of the credit per child, multiplied by the number of qualifying children. Similarly, the maximum ACTC per taxpayer is the maximum amount of the ACTC per child, multiplied by the number of qualifying children.

b. The refundable portion of the child tax credit—the amount that can exceed what a taxpayer owes in income taxes—is often referred to as the additional child tax credit or ACTC.

c. The threshold for married taxpayers who file separately is $55,000.

d. This includes taxpayers who file as surviving spouses.

e. This includes married taxpayers who file separately and taxpayers who file as surviving spouses.

f. This includes taxpayers who file as surviving spouses.

g. This includes married taxpayers who file separately.

## A9. How much is the ARPA expansion of the child credit expected to cost (i.e., the budgetary impact)?

The Joint Committee on Taxation (JCT) estimates that the total cost of the one-year ARPA expansion is $105.1 billion, of which $84.4 billion is attributed to the refundable portion of the credit (i.e., the ACTC).[26] This is in *addition to* the existing cost of the program before ARPA.

[26] The Joint Committee on Taxation estimates that the total cost of the one-year ARPA expansion of the child credit is $109.5 billion between FY2021 and FY2031, of which $88.8 billion is attributed to the refundable portion of the credit. These estimates, however, also include the cost of the permanent extension of the child credit to residents of the territories. Unlike residents of Puerto Rico, who are to apply directly for the child credit with the IRS, other territorial residents are to apply for and receive the child credit from their territorial tax authority. The Treasury is to provide these territorial governments with funds to cover these payments. This permanent extension to the territories is effective beginning in 2021 and so applies to the ARPA-expanded child credit. The budgetary cost of this permanent extension is $4.4 billion between FY2023 and FY2031, all of which is attributable to the refundable portion of the child credit. This amount is subtracted from the total cost to isolate the budgetary costs of the one-year expansion. See Joint Committee on Taxation, *Estimated Revenue Effects Of H.R. 1319, The "American Rescue Plan Act Of 2021," Scheduled For Consideration By The House Of Representatives On February 26, 2021*, February 12, 2021, JCX-12-21, https://www.jct.gov/publications/2021/jcx-12-21.

Prior to the ARPA expansion, the total cost of the child credit was $117.7 billion, according to the IRS's most recent data from 2018 tax returns.[27]

## A10: How do taxpayers with children at different income levels benefit from the ARPA-expanded child credit?

Estimates from the Tax Policy Center compiled in **Table 2** suggest that the ARPA-expanded child credit is a near universally available benefit among taxpayers with children and provides the largest benefit to the lowest-income taxpayers. Overall, the share of taxpayers with children eligible for the credit is estimated to increase from 89.1% to 92.0%, with the largest gains occurring among the lowest-income taxpayers (i.e., the share of such taxpayers receiving the credit will increase from 72.6% to 83.2%). In addition, the lowest-income 20% of taxpayers are estimated to see the largest gains in income, both as a share of their after-tax income and in dollar terms. Specifically, the ARPA-expanded child credit is estimated to equal 15.2% of after-tax income for the lowest-income taxpayers ($4,490), compared to 5.6% of their after-tax income prior to ARPA ($1,220).

**Table 2. Share of Taxpayers with Children Who Receive the Child Credit and Credit Amount by Income Percentile in 2021, Before and After ARPA**

| | Before ARPA | | | After ARPA | | |
|---|---|---|---|---|---|---|
| Income Percentile[a] | % of Taxpayers Who Receive the Credit | Benefit as % of After-Tax income | Average Benefit per Taxpayer | % of Taxpayers Who Receive the Credit | Benefit as % of After-Tax income | Average Benefit per Taxpayer |
| Lowest 20% | 72.6% | 5.6% | $1,220 | 83.2% | 15.2% | $4,490 |
| Second-Lowest 20% | 92.6% | 5.8% | $2,560 | 94.1% | 9.6% | $4,940 |
| Middle 20% | 97.2% | 3.9% | $2,900 | 97.6% | 5.9% | $4,890 |
| Second-Highest 20% | 99.2% | 2.4% | $2,880 | 99.2% | 3.6% | $4,650 |
| Highest 20% | 87.0% | 0.7% | $2,140 | 87.2% | 0.8% | $2,720 |
| All | 89.1% | 2.1% | $2,310 | 92.0% | 3.8% | $4,380 |

**Source:** Tax Policy Center Tables T21-0043 and T21-0045; see **Appendix A**.

**Notes:** Includes filing and non-filing taxpayers. Includes the $500 nonrefundable tax credit for other dependents. Taxpayers with children are those claiming an exemption for children or with children qualifying for the Child Tax Credit or EITC.

a. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks (in 2020 dollars) are as follows: 20%, $25,500; 40%, $51,000; 60%, $91,100; 80%, $164,300; 90%, $240,900; 95%, $341,700; 99%, $799,100; 99.9%, $3,496,400.

[27] Internal Revenue Service, *Individual Complete Report (Publication 1304), Table 3.3*, Statistics of Income, 2018, https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

# B. Administration of the ARPA-Expanded Child Credit

## B1. How was the ARPA-expanded child credit issued?

Unlike most tax benefits, which are received once a year as a lump sum after an income tax return is filed, up to half of the 2021 child credit was issued in advance of 2021 returns being filed. ARPA directed Treasury to issue *half of the estimated 2021 credit* in periodic payments beginning after July 1, 2021 (these periodic payments will generally be equal in amount).[28] The IRS issued these payments as monthly installments. Taxpayers will claim the remaining half of the total 2021 credit when filing their 2021 income tax return in 2022.

Like the expansion of the credit amount, the advance payment program was also temporary under current law. Under ARPA, advance payments of the 2021 credit cannot be made before July 1, 2021, or after December 31, 2021.[29]

## B2. How were the monthly advance payments calculated?

Advance payments of the 2021 child credit were based on *an estimate* of the credit taxpayers are eligible to claim on their 2021 income tax return. In order to estimate a taxpayer's 2021 child credit, the IRS used data from their 2020 income tax return, or if that was not available, data from their 2019 income tax return. The year of data used to estimate the 2021 credit is sometimes referred to as the "reference year." Since up to half of the 2021 credit could be issued in advance, the IRS generally calculated 50% of the estimated 2021 credit amount and then issued that in monthly payments.

For example, if a married couple filing jointly listed $75,000 of income and two young children on a 2020 return—and those children were also young in 2021 (i.e., 0-5 years old)—the IRS would have estimated their 2021 credit to be $7,200.[30] The IRS would have issued half of that amount—$3,600—in six monthly payments of $600, beginning July 15, 2021, and ending December 15, 2021.

## B3. Could taxpayers opt out of the advance payment program?

Yes, taxpayers could opt out by using the IRS's Child Tax Credit Update Portal (also referred to simply as "the update portal" in this report, or CTC-UP by the IRS).[31] Among married joint filers, both spouses had to opt out in order to stop all advance payments (otherwise half of the monthly advance payments were issued to the spouse who did not opt out).[32] Unless taxpayers opted out, they were automatically enrolled in the advance payment program.

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[28] IRC §7527A.

[29] IRC §7527A(f).

[30] See IRC §7527A(b)(1)(D). With respect to estimating the children's ages in 2021 to estimate the advance, "the ages of such children (and the status of such children as qualifying children) are determined for such taxable year by taking into account the passage of time since the reference taxable year." The IRS already receives data from the SSA for tax return processing purposes that includes children's dates of birth, and hence their projected age by December 31, 2021, can be determined.

[31] This tool is available at https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021.

[32] See Question J6 "If I'm married filing jointly, does my spouse also need to unenroll?" and Question J7 "If my spouse

Taxpayers may have wanted to opt out of the advance payments if they preferred receiving the benefit as part of their annual income tax refund. Taxpayers may have also wanted to opt out if they were concerned that they might receive more in advance payments than they were actually eligible for. Broadly, this could occur as a result of differences between information used to issue advanced payments (i.e., 2020 or 2019 tax data) and information on their 2021 income tax return. Specifically, it could occur due to changes in a variety of factors between 2021 and the reference year used to calculate the advance payments, including (a) large changes in income, (b) changes in the number of qualifying children (including in cases were children live with a different divorced parent in alternating years), (c) changes in marital status, and (d) changes in principal place of abode, or (e) a combination of these changes.[33]

In cases where the sum of advance payments is greater than the credit the taxpayer is eligible to claim on their 2021 income tax return, taxpayers may need to repay the excess, either by reducing their refund or by remitting payment to the IRS (see "B9. Will taxpayers need to pay back excess amounts of the child credit?").

## B4. Were monthly payment amounts adjusted when the IRS received new information?

ARPA allowed the IRS to adjust monthly payments for new information so that the total advance a taxpayer received was 50% of their estimated 2021 credit.[34] For example, if the IRS in August received information that a taxpayer was eligible for a 2021 credit of $7,200 and began issuing advance payments in September, this taxpayer would have generally been issued four monthly payments of $900, which in total would equal half of their 2021 credit.[35] Alternatively, in certain situations the IRS issued different amounts of monthly payments such that the sum of all payments issued in 2021 was 50% of their estimated credit amount (i.e., the taxpayer is "made whole").[36]

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unenrolls and I don't unenroll, what will happen?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic J: Unenrolling from Advance Payments*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-j-unenrolling-from-advance-payments.

[33] If the taxpayer's principal place of abode is not the United States in 2021, but it is in 2020 (or 2019, if 2020 data are not available), then the refundable portion of their 2021 credit amount will be phased in using the earned income formula. Hence, some low-income taxpayers may not be eligible for the full credit amount of $3,600 per young child and $3,000 per older child, and may receive more in advance payments than they are eligible for. See question G6 "I filed my 2020 tax return with a U.S. address although my child and I do not live in the United States. I received Letter 6417 at my U.S. address stating that the IRS will begin to disburse advance Child Tax Credit payments to me. What can I do?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic G: Receiving Advance Child Tax Credit Payments*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-g-receiving-advance-child-tax-credit-payments.

[34] See IRC §7527A(b)(3), §7527A(a)(3), §7527A(b)(1).

[35] If the 2021 credit was estimated to be $7,200, then half of that—$3,600—could be issued in advance. If the taxpayer received six monthly payments, the payments would thus equal $600 each month. If the taxpayer received four monthly payments, the payments would equal $900 each month. According to the IRS, "Families who did not get a July payment and are getting their first monthly payment in August will still receive their total advance payment for the year. This means that the total payment will be spread over five months, rather than six, making each monthly payment larger." Internal Revenue Service, "IRS: Families now receiving August Child Tax Credit payments; still time for low-income families to sign up," press release, August 13, 2021, https://www.irs.gov/newsroom/irs-families-now-receiving-august-child-tax-credit-payments-still-time-for-low-income-families-to-sign-up.

[36] This may be the case, for example, when the IRS made an error in issuing the first payments, as was the case with certain ITIN filers. According to the IRS National Taxpayer Advocate, "Over one million taxpayers who filed their returns with an ITIN did not receive their Child Tax Credit (CTC) monthly payment in July. The IRS has identified the

Initially, taxpayers could only provide this information via the IRS's Child Tax Credit Non-filer Sign-up Tool beginning in mid-June of 2021. By the beginning of September 2021, eligible non-filers could also use the GetCTC tool developed by Code for America in consultation with Treasury.[37] By the end of 2021, the White House was linking directly to the Code for America non-filer tool.[38]

The statute also allowed adjustments that could reduce advance payment amounts. This could have occurred when a taxpayer's advance payments were estimated using 2019 tax data, but their 2020 return resulted in a smaller estimated 2021 credit (and hence smaller advance payments) once it was filed and processed.[39] It could have also occurred when a taxpayer updated their information with the IRS using the agency's update portal and that information resulted in a smaller estimated 2021 credit.

The IRS, however, initially stated that it would only be able to accept information on the update portal that could affect the advance amount in "late summer." The IRS issued a press release at the end of October stating that taxpayers could update their *income* information, which could affect the amount of their November and December payments. However, taxpayers were unable to use the update portal to update the *number of children* they had in 2021.[40]

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issue, which it fixed prior to issuing the August payments; the issue is not anticipated to occur again. But the fix comes with confusion. Since the IRS erroneously did not make the July payment, it calculated the August payment based upon the total amount of eligible AdvCTC and then divided it by five months (August-December). Good news: as of August 23, the IRS is retroactively issuing the July payment to these individuals. However, the July payment amount will be based upon the total amount of eligible AdvCTC divided by six months (July-December) and then reduced by the additional amount included in the August payment.... I will try to simplify by way of an example: Mary has one child and based upon her 2020 income may have a CTC credit of $3,000. One half of that amount, $1,500, would be eligible to be paid in six monthly payments ($250) as AdvCTC. If Mary filed her 2020 return with an ITIN and did not receive her July payment the IRS calculated her August payment based upon a five-month schedule (August-December) and paid Mary $300 in August ($1,500 divided by five payments). Now that the IRS is retroactively paying Mary her July payment, she will be receiving $250 for the July payment based upon a six-month schedule (July-December, $1,500 divided by six payments) minus the additional $50 she received in August. Her July payment will be $200. Now to add to Mary's confusion, the IRS will be issuing the September payment in the correct amount of $250. All subsequent payments should be $250." Taxpayer Advocate Service, "NTA Blog: Advance Child Tax Credit: What You Should Know: Part II," August 26, 2021, https://www.taxpayeradvocate.irs.gov/news/nta-blog-advance-child-tax-credit-what-you-should-know-part-ii/.

[37] Code for America's non-filer tool can be found at https://www.getctc.org/en.

[38] See, for example, The White House, "Child Tax Credit for Non-Filers," https://www.whitehouse.gov/child-tax-credit/sign-up/.

[39] See, for example, the answer to question E4 "My 2019 tax return was used to determine my advance Child Tax Credit payments. I recently filed my 2020 tax return with a different amount of income. Will the IRS update my advance Child Tax Credit payment amounts?" on the IRS's website. Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic E: Advance Payment Process of the Child Tax Credit*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-e-advance-payment-process-of-the-child-tax-credit#e1#e1.

[40] See Internal Revenue Service, "Child Tax Credit: Families with income changes must enter them in IRS online portal on Monday to impact Nov. 15 payment; Spanish version coming in late November," press release, October 29, 2021, https://www.irs.gov/newsroom/child-tax-credit-families-with-income-changes-must-enter-them-in-irs-online-portal-on-monday-to-impact-nov-15-payment-spanish-version-coming-in-late-november. In late summer, the IRS stated that taxpayers would be able to "make changes to your dependents, marital status and income and re-enroll if you previously unenrolled." Prior to that, the update portal could be used to unenroll from advance payments, make changes to bank information, and update address information. See the answer to question A16 "When will I be able to update my information?" at Internal Revenue Service, *2021 Child Tax Credit and Advance Child Tax Credit Payments—Topic A: General Information*, https://www.irs.gov/credits-deductions/2021-child-tax-credit-and-advance-child-tax-credit-payments-topic-a-general-information#a16#a16.

## B5. Was there an income threshold above which advance payments were *not* issued?

No, the statute did not include an income threshold above which advance payments would not be issued. (Higher-income taxpayers were eligible for a smaller credit compared to low- and moderate-income taxpayers [see **Figure 1**].) In addition, the IRS never indicated that it would be treating higher-income taxpayers differently than low- and moderate-income taxpayers for purposes of advance payments. Like all taxpayers, higher-income taxpayers could have elected to opt out of receiving advance payments using the update portal (see **Appendix C** for more information).

## B6. Did otherwise eligible households who, due to their low incomes, do not normally file a tax return, automatically receive the advance payments?

No, the IRS had to have information from a 2020 or 2019 income tax return in order to calculate the estimated 2021 credit amount, and then issue advance payments.[41] (The IRS also issued payments to taxpayers who used the non-filer portal to receive the first "stimulus check" payment in 2020.)[42] Eligible recipients who were generally not required to file an income tax return due to their low incomes were encouraged to use the child credit non-filer portal (either the IRS tool or the Code for America tool) to provide the necessary information to issue advance payments.[43] If taxpayers did not receive any advance payments in 2021, but are eligible for the 2021 credit, they will generally receive the entire amount of the credit when they file their 2021 income tax return. (However, if the taxpayer is subject to offset, the credit they receive with their 2021 tax return could be reduced; see "B11. Could the advance payments of the credit and/or the credit claimed on 2021 income tax returns be reduced for child support or other debts?")

## B7. Were there any limitations on how the advance payments of the credit could be spent?

No, there are no limitations or restrictions on how the advance payments (or the amount received after filing 2021 income tax returns) could be spent. For more information on recent research on

[41] Existing research suggests eligible households who did not receive advance payments of the credit tended to be low-income. For example, see Natasha Pilkauskas and Katherine Michelmore, "Families with Low Incomes and the Child Tax Credit: Who is Still Missing Out?" *University of Michigan | Poverty Solutions*, December 2021, http://sites.fordschool.umich.edu/poverty2021/files/2021/12/PovertySolutions-Child-Tax-Credit-who-is-still-missing-out-Decembe2021.pdf.

[42] Eligible taxpayers for whom the IRS does not have tax information on file for 2020 or 2019 will not receive the payments. Various outreach activities are under way to enroll these households. The White House, *FACT SHEET: Biden-Harris Administration Whole-of-Government Effort to Ensure Child Tax Credit Reaches All Eligible Families*, September 15, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/15/fact-sheet-biden-harris-administration-whole-of-government-effort-to-ensure-child-tax-credit-reaches-all-eligible-families/; and Gabriel Zucker and Maximilian Hell, *Getting the Child Tax Credit to Families With Low or No Incomes Means Using the Right Data*, Code for America, September 21, 2021, https://www.codeforamerica.org/news/getting-the-child-tax-credit-to-families-with-low-or-no-incomes-means-using-the-right-data/. Data suggest these families are more likely to be poor. See Aravind Boddupalli, *Where Are Families Most at Risk of Missing Out on the Expanded Child Tax Credit?* Tax Policy Center, October 21, 2021, https://www.taxpolicycenter.org/taxvox/where-are-families-most-risk-missing-out-expanded-child-tax-credit?&utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC.

[43] The tool is available at https://www.irs.gov/credits-deductions/child-tax-credit-non-filer-sign-up-tool. Taxpayers can also use the Code for America non-filer tool at https://www.getctc.org/en. Code for America's tool was developed in consultation with Treasury. Unlike the IRS tool, the Code for American tool works on mobile devices and is available in Spanish.

how recipients spent the advance payments, see "III. Estimates of How Families/Taxpayers Spent the Child Credit" in **Appendix A**.

## B8: How will taxpayers determine the amount of the credit they can claim on their 2021 income tax return?

When a taxpayer files their 2021 return (in 2022), they will first calculate the total amount of the 2021 child credit they are eligible for (based on the number and ages of qualifying children, income, and marital status for 2021). Then, the taxpayer will subtract from their total 2021 credit the sum of advanced child credit payments they received during calendar year 2021. To help with this calculation, the IRS is mailing a year-end summary statement (Letter 6419) to all taxpayers who received advance payments during 2021.

For example, if an unmarried taxpayer had two young children (and filed as a head of household) and less than $112,500 of income *in 2020 and 2021*, they would be eligible for a total child credit for 2021 of $7,200. Since they would have received half of their total 2021 credit in advance payments in calendar year 2021 ($3,600), they would ultimately claim the remaining half ($3,600) on their 2021 return. The taxpayer is effectively splitting their total credit between the advance payments they received in 2021 (50% of their total credit) and the remaining 50% of the credit they claim on their 2021 tax return.

## B9. Will taxpayers need to pay back excess amounts of the child credit?

Potentially, yes, if they received more in advance payments than they are eligible to claim on their 2021 income tax returns. A taxpayer may have excess amounts of the credit due to changes in income, marital status, or number of qualifying children between the year used to estimate the advance (2020 or 2019) and 2021.

For example, if a taxpayer's estimated advance payments totaled $5,400 (based on an *estimate* of three qualifying young children) but the total 2021 credit they are actually eligible for is $3,600 (because they only had one qualifying young child), they would need to repay up to $1,800 (the difference between $5,400 and $3,600).[44] Excess payments caused by *changes in the number of qualifying children* generally will not need to be repaid for lower- and moderate-income taxpayers who are protected by a safe harbor (this safe harbor decreases as income rises). For more information on the safe harbor, see "B10. How does the "safe harbor" work?" and **Table D-1**. Repayment may either reduce a taxpayer's 2021 tax refund or result in the taxpayer being required to remit payment to the IRS (or be subject to offset of a future tax refund).

## B10. How does the "safe harbor" work?

Lower- and moderate-income taxpayers who received excess advance payments of the credit due to *changes in the number of qualifying children between 2021 and 2020* (or 2019, if 2020 data are unavailable) may be protected from paying back some or all of these excess payments due to a safe harbor. Effectively, after calculating any excess payments, the taxpayer subtracts from this amount the total safe harbor amount they are eligible for to determine any amount they must ultimately repay (either in terms of reducing their tax refund or remitting payment).

The safe harbor amount is first calculated by multiplying $2,000 times the difference in the number of qualifying children between the reference year (2020 or 2019) and 2021. This is the

[44] Three young children x $3,600 per young child = a maximum credit of $10,800. Since up to 50% of the credit can be issued in advance payments, the maximum amount of advance payments equals $5,400.

maximum amount of the safe harbor. The safe harbor amount is then phased down ratably—that is, proportionally—for head of household filers with 2021 income between $50,000 and $100,000 and for married joint filers with 2021 income between $60,000 and $120,000.

For example, if a married taxpayer's advance payments issued in 2021 totaled $5,400 (based on an *estimate* of three qualifying young children) but the total 2021 credit they are actually eligible for is $3,600 (because they only had one qualifying young child), their excess payments would equal $1,800. If the taxpayer's 2021 income was $75,000, they would be eligible for a $3,000 safe harbor.[45] Since their safe harbor ($3,000) is greater than their excess payment amount ($1,800), the taxpayer would *not* need to repay the excess amount. For more information on the safe harbor, see **Table D-1**.

The safe harbor does not apply in cases where excess payments arise from changes in income, marital status, or principal place of abode between the reference year and 2021.

## B11. Could the advance payments of the credit and/or the credit claimed on 2021 income tax returns be reduced for child support or other debts?

The advance payments of the child credit were generally exempt from offset for certain past-due debts the recipient owed (including past-due child support).[46] In other words, the monthly advance payments issued in 2021 *were not* be reduced for these debts before they were issued by the Treasury. However, the portion of the credit claimed on 2021 income tax returns *is subject to offset*. In practical terms, that means that when a taxpayer files their 2021 tax return in 2022 and claims the remaining portion of the 2021 child credit, the portion of their 2021 tax refund attributable to the child credit can be offset.

In addition to the offset mechanism—which effectively reduces a government payment *before* it is issued by Treasury—creditors may also recoup past-due debts through garnishment and levy actions. Practically, these occur *after* a payment is issued (e.g., deposited in a bank account). There are no statutory provisions at the federal level that protect the child credit—received either as advance payments or claimed on an income tax return—from garnishment or levy actions.

## B12. Does receipt of the credit—either in the form of advance payments or claimed on a tax return—affect eligibility for other government programs?

No, receipt of the child credit will not affect eligibility for or the amount of other federally funded government programs. Under a permanent provision of the Internal Revenue Code, tax credits, including the child tax credit—whether received as advance payments or claimed on an income tax return—do not count as income or resources for a 12-month period in determining eligibility for, or the amount of assistance provided by, any federally funded public benefit program.[47]

[45] The maximum safe harbor they would be eligible for would be $4,000 ($2,000 times the next difference in the number of qualifying children, which is two in this example.) The taxpayer's income places them in the phaseout range of the safe harbor and their maximum safe harbor would be reduced by 25% [=($75,000-$60,000)/($120,000-$60,000)] from $4,000 to $3,000.

[46] In this report, the term *offset* refers to the Treasury Offset Program, which "collects past-due (delinquent) debts (for example, child support payments) that people owe to state and federal agencies." For more information, see Bureau of Fiscal Service, *Treasury Offset Program*, https://fiscal.treasury.gov/top/.

[47] IRC §6409.

## B13. Is the ARPA-expanded child credit—either in the form of advance payments or claimed on a tax return—taxable?

No, the child credit is not subject to federal taxation, but in some cases, the expanded credit may affect state liabilities.[48] At the federal level, tax credits, including the ARPA-expanded child credit, are not considered taxable income. This is the case regardless of whether the credit is claimed on a tax return or issued as advance payments.

## B14. Did Treasury update wage withholding schedules to reflect that up to half of the credit was issued as advance payments before 2021 tax returns are filed?

No, Treasury did *not* automatically update the amount of income taxes withheld from workers' paychecks to take into account that up to half of the 2021 credit was issued in advance (and hence not claimed on 2021 income tax returns). Taxpayers could have manually adjusted their withholding, for example by updating their IRS Form W-4 with their employer.

## B15. How many advance payments of the 2021 credit were issued?

Data from Treasury indicate that between 35 million and 36 million families have received a monthly advance payment of the credit between July and December 2021. In total, these payments have equaled over $93 billion, averaging between $423 and $444 per recipient per month.

These numbers were subject to change from month to month as taxpayers enrolled in advance payments, unenrolled from advance payments, or provided information that could change the amounts. Between June 14 and November 15, 2021, taxpayers were able to enroll to receive the payments using a non-filer portal (initially only with the IRS tool, but by September, they could also use the Code for America tool). Beginning in late June of 2021, taxpayers could also opt out of using the update portal (CTC-UP).[49] Taxpayers had until November 29, 2021, to make allowable changes to their information using CTC-UP for remaining advance payments.

**Table 3. Advanced Payments of the 2021 ARPA-Expanded Child Credit by Month**

| | Total Number of Payments | Number of Qualifying Children | Total Amount of Payments | Average Payment Amount |
|---|---|---|---|---|
| December 2021 | 36.1 million | 61.2 million | $16.0 billion | $444 |
| November 2021 | 36.1 million | 61.3 million | $15.7 billion | $435 |

[48] In some cases, the expanded child credit may affect state liabilities, as discussed in a report by Elaine Maag and David Weiner of the Tax Policy Center: "Although Oklahoma is the only state where taxpayers will benefit from its links to the federal CTC, it is not the only state with taxpayers who will be affected by the federal change. About 1 million households across other states will see their state income taxes increase as their federal income taxes drop from the larger CTC. Three-quarters of those taxpayers are in states with a federal income tax deduction. That is, these states allow taxpayers to reduce their taxable income by the amount of their federal income tax bill. If federal taxes drop, more income will be taxed at the state level. Other interactions between federal and state laws cause the state tax increase for other households. For example, some states limit certain state credits to federal tax liability. With lower federal tax liability because of the expanded CTC, households can claim less in state credits. This can occur, for example, in Maryland and New York." Elaine Maag and David Weiner, *How Increasing the Federal EITC and CTC Could Affect State Taxes*, Tax Policy Center, April 22, 2021, p. 7, https://www.taxpolicycenter.org/publications/how-increasing-federal-eitc-and-ctc-could-affect-state-taxes/full.

[49] See White House, "Child Tax Credit for Non-Filers," https://www.whitehouse.gov/child-tax-credit/sign-up/.

| | Total Number of Payments | Number of Qualifying Children | Total Amount of Payments | Average Payment Amount |
|---|---|---|---|---|
| October 2021 | 36.0 million | 61.1 million | $15.5 billion | $430 |
| September 2021 | 35.5 million | 60.0 million | $15.2 billion | $428 |
| August 2021 | 36.0 million | 60.9 million | $15.4 billion | $428 |
| July 2021 | 35.2 million | 59.3 million | $14.9 billion | $423 |

**Sources:** U.S. Treasury: Office of Tax Analysis, "Advancing the Child Tax Credit," available at https://home.treasury.gov/policy-issues/tax-policy/office-of-tax-analysis.

**Note:** The numbers shown reflect advance CTC payments disbursed to eligible recipients based on taxpayer account information and do not account for reversed or undeliverable advance CTC payments.

Excluding the payments disbursed in September 2021, there has generally been a net increase in the number of payments made and number of qualifying children living in families receiving these payments over the past six months. In September, a technical issue resulted in less than 2% of recipients failing to receive their monthly payments, according to the IRS.[50] The IRS issued a statement that these payments were generally issued at the end of September.

# C. Territorial Residents and the Child Credit

## C1. Did territorial residents receive the child credit *before* ARPA?

It is unclear whether and to what extent residents of territories received the child credit before ARPA. But available information suggests that the credit they received prior to ARPA was generally *less* than the amount received by residents of the United States in similar circumstances (i.e., same marital status, income, and number of children).

Puerto Rico's income tax does not include a child credit. Prior to ARPA, residents of Puerto Rico with three or more children could receive the additional child credit (ACTC) under the "alternative formula."[51] (The ACTC is the amount of the credit that is greater than income taxes owed, and is also referred to as the "refundable portion" of the credit.) Under the alternative formula, the ACTC effectively equals 7.65% of earned income up to the maximum ACTC per child, which was $1,400 per child before ARPA. Puerto Rican residents applied for the ACTC under the alternative formula directly with the IRS. The alternative formula is, in most cases, less generous than the ACTC calculated under the earned income formula.[52] Because only families

[50] Internal Revenue Service, "IRS Statement – Advance Child Tax Credit Payments," press release, September 24, 2021, https://www.irs.gov/newsroom/irs-statement-advance-child-tax-credit-payments.

[51] Throughout this report, the discussion of residents of U.S. territories will be of *bona fide residents* of these territories. According to the Joint Committee on Taxation, "[a] bona fide resident of a territory for a taxable year is generally an individual (1) who is present for at least 183 days during the taxable year in the territory, and (2) who does not have either a tax home outside the territory or a closer connection to the United States or a foreign country than to the territory.... Broadly, a bona fide individual resident of a territory is exempt from U.S. tax on income derived from sources within that territory but is subject to U.S. tax on U.S.-source and non-territory-source income." Further, this discussion generally focuses on territorial residents who are not required to file a federal income tax return, and hence do not receive the child credit with the federal income tax return.

[52] Under the earned income formula, the ACTC is calculated as 15% of earned income above $2,500, up to the maximum ACTC per child of $1,400 (adjusted for inflation). Beginning in 2026, the formula is scheduled to be 15% of earned income above $3,000 up to a maximum of $1,000 per child.

with three or more children could receive the ACTC under the alternative formula, Puerto Rican families with one or two children did not receive the ACTC.

While the territorial governments of American Samoa and mirror-code territories may have had child credits under their own internal tax laws, it is unclear whether and to what extent these territorial governments paid out these credits from local funds.[53] Like residents of Puerto Rico, residents of these territories with three or more children could generally receive the ACTC under the alternative formula (and hence families with fewer than three children could not receive the ACTC). Unlike residents of Puerto Rico, residents of American Samoa, Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and the United States Virgin Islands (USVI) applied for the ACTC with their territorial governments, with the IRS issuing aggregate payments to the respective territorial governments to cover the costs of the child credit (sometimes referred to as a "cover-over" payment).[54] (See **Table E-1**.)

## C2. How did ARPA change the child credit for territorial residents in 2021?

Broadly, ARPA provided clarity on both the amount of the credit territorial residents can receive and the federal funding to cover the cost of this benefit permanently, including for 2021. ARPA generally allowed territorial residents to receive the entire amount of the ARPA-expanded credit.[55] Residents of Puerto Rico are eligible to receive the ARPA-expanded child credit when they file a 2021 tax return directly with the IRS.[56] Residents of American Samoa can receive the full amount of the ARPA-expanded child credit. If American Samoa has an approved plan to distribute these payments, then Treasury is directed to provide the American Samoan government funds to cover their full cost, and the American Samoan government will pay out the benefit to its residents. Otherwise, residents of American Samoa will be able to file a return with the IRS to directly claim the benefit. Residents of mirror-code territories can receive the full benefit of the ARPA-expanded child credit. Residents of mirror-code territories will receive the benefit from their respective territorial governments, with the U.S. Treasury directed to provide each government with a "cover-over" payment for the total cost of the benefit. (See **Table E-1**.)

## C3. Did territorial residents receive the advance payments of the 2021 credit?

No, territorial residents did not receive advance payments from the U.S. Treasury. Residents of Puerto Rico, who receive their child credit payments directly from the IRS, are ineligible to participate in the federal advance payment program. Hence, they will receive the full benefit when they file a 2021 tax return with the IRS in early 2022.

If American Samoa and mirror-code territorial governments elect to advance the 2021 ARPA-expanded credit directly to their residents in a manner similar to the federal advance program, the law provides that Treasury will provide these governments with an additional $300,000 per

[53] A mirror code territory is a territory whose own territorial tax law is effectively the U.S. Internal Revenue Code (IRC) with the territory's name substituted for the United States wherever the term United States is used in the IRC (i.e., it is a "mirror" of the IRC).

[54] The IRS Chief Financial Officer (CFO) made these aggregate payments to territorial governments prior to ARPA.

[55] For more information, see Taxpayer Advocate Service, *TAS Tax Tip: 2021 Advance Child Tax Credit information for U.S. Territory residents*, August 25, 2021, https://www.taxpayeradvocate.irs.gov/news/tas-tax-tip-2021-advance-child-tax-credit-information-for-u-s-territory-residents/.

[56] IRS Form 1040-SS or IRS Form 1040-PR.

territory for the associated administrative costs (in addition to the amounts to cover the aggregate costs of the benefit itself).[57]

## C4. How did ARPA change the child credit for territorial residents after 2021?

Broadly, ARPA provided clarity on both the amount of the benefit territorial residents can receive and the federal funding to cover the cost of this benefit permanently—that is, *after 2021*. Residents of Puerto Rico—irrespective of the number of children they have—will be eligible to receive the ACTC under the alternative formula, applying for this benefit directly with the IRS. If American Samoa has an approved plan to distribute to its residents child credit amounts—both the refundable portion (i.e., the ACTC) and the nonrefundable portion—that reflect those in the Internal Revenue Code (IRC) for a given year, then Treasury is directed to provide the American Samoan government funds to cover the full cost of this credit.[58] If no such plan is in effect, American Samoan residents may apply directly with the IRS like Puerto Rican residents (i.e., they can apply directly with the IRS for the ACTC under the alternative formula, disregarding the limitation for three or more children). Residents of the mirror-code territories can receive child credit amounts—both the refundable portion (i.e., the ACTC) and the nonrefundable portion—that reflect those in the Internal Revenue Code (IRC) for a given year. Treasury is directed to provide these governments funds to cover the full cost of this credit. (See **Table E-1**.)

[57] For example, the governor of the Commonwealth of the Northern Mariana Islands issued a press release stating that its local tax authority, the Department of Finance, Division of Revenue and Taxation (DRT), is implementing a plan. Office of the Governor of the Commonwealth of the Northern Mariana Islands, "DRT planning for advanced payments of the Expanded Child Tax Credit," press release, May 13, 2021, https://governor.gov.mp/news/press-releases/drt-planning-for-advanced-payments-of-the-expanded-child-tax-credit/.

[58] This includes the refundable portion of the child credit—the ACTC—calculated under the earned income formula.

# Appendix A. Selected Research on the ARPA-Expanded Child Credit

A variety of research studies have evaluated the effects of the ARPA-expanded child credit, either as a standalone provision or in combination with other provisions.[59] A selection of these studies is provided in this appendix. In some cases, these studies examined the impact of the ARPA-expanded credit if it were to be permanent or extended as part of the Biden Administration's American Families Plan.

## I. Poverty and Economic Security

**Table A-1** provides a selected list of studies that examine the ARPA-expanded child credit's impact on economic security and poverty as a stand-alone provision. Of note, in 2019, the National Academy of Sciences released a study evaluating the poverty reduction impact of a child allowance similarly structured to the ARPA-expanded child credit.[60]

**Table A-1. Selected Research on the ARPA-Expanded Child Credit's Impact on Poverty and Economic Security**

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Columbia's Center on Poverty and Social Policy, *November Child Tax Credit payment kept 3.8 million children from poverty*<br><br>December 15, 2021 | **Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in November 2021, after the fifth advance payment of the child credit. These estimates are also provided by race/ethnicity. | "The fifth monthly payment of the expanded Child Tax Credit kept 3.8 million children from poverty in November 2021. The Child Tax Credit reached 61.3 million children in November and, on its own, contributed to a 5.1 percentage point (29.4 percent) reduction in child poverty compared to what the monthly poverty rate in November would have been in its absence." |
| Center on Budget and Policy Priorities (CBPP), *If Congress Fails to Act, Monthly Child Tax Credit Payments Will Stop, Child Poverty Reductions Will Be Lost,* by Kris Cox, Chuck Marr, Arloc Sherman, and Stephanie Hingtgen<br><br>December 3, 2021 | **Child Poverty:** Simulated estimates of the number of children who would experience reduced income and fall either into poverty or deeper into poverty if the ARPA-expanded child tax credit were not extended, relative to circumstances if the expansion were extended. Estimates are made using 2018 data and simulate the impact in a nonrecessionary economy. These estimates are provided at the state level. | "An estimated 9.9 million children are at risk of slipping back below the poverty line or deeper into poverty if the [ARPA] expansion is not extended.... These include 3.8 million Latino, 2.9 million white, 2.1 million Black, 426,000 Asian, and 280,000 American Indian or Alaska Native (AIAN) children." |

[59] For example, see Zachary Parolin et al., *The American Rescue Plan could cut child poverty by more than half*, Center on Poverty and Social Policy at Columbia University, March 11, 2021, https://www.povertycenter.columbia.edu/news-internal/2021/presidential-policy/biden-economic-relief-proposal-poverty-impact. Or for a comparison of the average value of all child tax benefits in 2021 by proposal, see Table 8 in Alex Brill, Kyle Pomerleau, and Grant M. Seiter, *The Tax Benefits of Parenthood: A History and Analysis of Current Proposals*, American Enterprise Institute, February 2021, https://www.aei.org/research-products/report/the-tax-benefits-of-parenthood-a-history-and-analysis-of-current-proposals/.

[60] National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty*, 2019, https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Columbia's Center on Poverty and Social Policy, *October Child Tax Credit payment kept 3.6 million children from poverty*<br><br>November 30, 2021 | **Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in October 2021, after the fourth advance payment of the child credit. These estimates are also provided by race/ethnicity. | "The fourth monthly payment of the expanded Child Tax Credit kept 3.6 million children from poverty in October 2021. The Child Tax Credit reached 61.1 million children in October and, on its own, contributed to a 4.9 percentage point (28 percent) reduction in child poverty compared to what the monthly poverty rate in October would have been in its absence." |
| JPMorgan Chase & Co., *Household Cash Balance Pulse: Family Edition*<br><br>November 2021 | **Cash balances:** De-identified administrative banking data reporting cash account balances. | "Families who received advanced CTC in 2021 had balances in September that were 70 percent higher than two years prior, while families without kids had balances that were 50 percent higher.... In this sense, advanced CTC payments may be helping families with kids maintain elevated cash balances." |
| Jain Family Institute, *Analysis of Full Refundability of the Child Tax Credit Without Expansion,* by Jack Landry and Stephen Nuñez<br><br>October 28, 2021 | **Child poverty:** Simulated estimates of child poverty rates, number of children in deep poverty, and poverty gap under several scenarios. Those scenarios include the full ARPA expansion of the child credit, full refundability of the pre-ARPA credit (i.e., $2,000 per child), and an increase of the pre-ARPA credit without full refundability. Estimates are made using 2018 data and simulate impacts in a nonrecessionary economy.<br><br>**Other Impacts:** Simulated estimates of the budgetary cost of the child credit under these different scenarios. | "Treating the TCJA-era [child credit] as the baseline, we find that the full ARPA expansion reduces child poverty by 40 percent, introducing full refundability alone reduces it by 19 percent, and introducing the dollar amount expansion alone reduces it by only 7 percent. The full ARPA expansion reduces deep child poverty by 49 percent, introducing full refundability alone reduces it by 32 percent, and introducing the dollar amount expansion alone reduces it by only 2 percent. The full ARPA expansion reduces the average child poverty gap by $638, introducing full refundability alone reduces it by $363, and introducing the dollar amount expansion alone reduces it by only $73. The TCJA-era CTC costs about $117 billion per year. The full ARPA CTC expansion would raise that to roughly $216 billion (+$ 99 billion); extending full refundability alone would raise it to $134 billion (+ $17 billion); the dollar amount expansion alone would raise it to $162 billion (+$45 billion)." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Columbia's Center on Poverty and Social Policy, *Expanded Child Tax Credit Continues to Keep Millions of Children from Poverty in September*<br><br>October 27, 2021 | **Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in September 2021, after the third advance payment of the child credit. These estimates are also provided by race/ethnicity. | "The third monthly payment of the expanded Child Tax Credit (CTC) kept 3.4 million children from poverty in September 2021. The monthly child poverty rate increased between August and September, from 11.5 percent to 13.2 percent, due to the expiration of expanded unemployment benefits across the country and the rollback of Supplemental Nutrition Assistance Program (SNAP) emergency allotment benefits in some states. However, the Child Tax Credit contributed to a 4.6 percentage point (26 percent) reduction in child poverty compared to what the monthly poverty rate in September would have been in its absence." |
| Columbia's Center on Poverty and Social Policy, *Effects of the Expanded Child Tax Credit on Employment Outcomes,* by Elizabeth Ananat et al.<br><br>October 10, 2021 | **Employment:** Estimates of the labor supply response using data from the monthly Current Population Survey (CPS) files from April 2021 through August 2021, and the Census Household Pulse Survey microdata collected from April 14, 2021, through September 13, 2021. | "We find very small, inconsistently signed, and statistically insignificant impacts of the [ARPA-expanded] CTC both on employment in the prior week and on active participation in the labor force among adults living in households with children. Further, labor supply responses to the change in CTC do not differ for households previously earning within the phase-in range of the prior CTC, in striking contrast to the predictions of the simulation work. Thus, our analyses of real-world data do not support claims that the [ARPA-expanded] CTC has negative employment effects that offset its documented reductions in poverty and hardship." |
| Becker Friedman Institute for Economics at the University of Chicago, *The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion,* by Kevin Corinth et al.<br><br>October 7, 2021 | **Employment:** Simulated estimates of the labor supply response of parents to the ARPA-expanded child credit. These estimates are made using 2016 survey and administrative data included in the Comprehensive Income Dataset (CID).<br><br>**Child Poverty:** Simulated estimates of the impact of the ARPA-expanded child tax credit on child poverty rates incorporating estimates of labor supply responses to the child tax credit. These estimates are made using 2016 survey and administrative data included in CID. | "By replacing the [prior law child tax credit] TCJA CTC (which contained substantial work incentives akin to the EITC) with a universal basic income-type benefit, the CTC expansion reduces the return to working at all by at least $2,000 per child for most workers with children. Relying on elasticity estimates consistent with mainstream simulation models and the academic literature, we estimate that this change in policy would lead 1.5 million workers (constituting 2.6% of all working parents) to exit the labor force. The decline in employment and the consequent earnings loss would mean that child poverty would only fall by 22%." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Washington University in St. Louis Social Policy Institute and Appalachian State University, *Expanded Child Tax Credit Payments Have Not Reduced Employment: Evidence from Census Data,* by Stephen Roll, Leah Hamilton, and Yung Chun<br><br>October 2021 | **Employment:** Estimates of the change in labor supply from child tax credit expansion proposals using Census Household Pulse survey. | "In this research brief, we address the question of whether the CTC is affecting parents' employment by using data from the Census Household Pulse to compare employment trends among parents and non-parents before and after the CTC payments began.... We see no difference in employment trends between parents and non-parents before and after CTC payments started going out.... Our analyses also found no significant differences in employment for low-income, middle-income, or high-income families receiving the CTC. We also see no evidence that the CTC is increasing the proportion of parents who are staying home with their children rather than working" |
| National Bureau of Economic Research (NBER) *Estimating the Net Fiscal Cost of a Child Tax Credit Expansion*, by Jacob Goldin, Elaine Maag, and Katherine Michelmore<br><br>October 2021, Revised December 2021 | **Employment:** Estimates of the change in labor supply from child tax credit expansion proposals using 2017 data.<br>**Fiscal Cost:** Simulated estimates of the direct costs of the child tax credit expansion proposals. These include the costs of increased benefits, changes in tax revenue from labor supply responses, and longer-term tax revenue changes attributable to children's future earnings. Simulations are based on 2017 data. | "We study the fiscal cost of three such proposals that would expand refundability of the credit to low-income children, increase the maximum credit amount, and/or eliminate the income phase-out to make the credit universal. For each proposal, we use the Current Population Survey to estimate three components of the net fiscal cost: the direct cost (additional tax refunds or lower tax liability), revenue changes due to taxpayers' labor supply responses, and long-term changes in tax revenue due to changes in children's future earnings. We find that direct costs are by far the most important component but that long-term earning changes also play an important role, offsetting 20% of the direct costs of making the credit fully refundable. In contrast, labor supply responses modestly contribute to the fiscal cost of the CTC expansions we model." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Columbia's Center on Poverty and Social Policy, *Second Child Tax Credit Payment Keeps 3.5 Million Children Out of Poverty*, by Zachary Parolin and Megan Curran<br><br>September 24, 2021 | **Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in August 2021, after the second advance payment of the child credit. These estimates are also provided by race/ethnicity. | "The second monthly payment of the expanded Child Tax Credit (CTC) lifted 3.5 million children out of poverty in August 2021. The child poverty rate declined from 11.9 percent in July 2021 (the month featuring the first CTC payment) to 11.5 percent in August 2021. Without the CTC, the monthly child poverty rate in August 2021 would have been 16.2 percent. The CTC contributed to a 4.7 percentage point (29 percent) reduction in child poverty compared to what the monthly poverty rate in August would have been in its absence." |
| Center on Budget and Policy Priorities (CBPP), *Earnings Requirement Would Undermine Child Tax Credit's Poverty-Reducing Impact While Doing Virtually Nothing to Boost Parents' Employment,* by Arloc Sherman, Chuck Marr, and Stephanie Hingtgen<br><br>September 23, 2021 | **Child Poverty:** Simulated estimates of the number of children in poverty with and without full refundability. Specifically, the authors estimate child poverty rates with the ARPA-expanded child credit and compare them to child poverty rates with the ARPA-expanded child credit with the prior-law earned income formula used to phase-in the credit for low-income taxpayers. Estimates are made using 2018 data and simulate the impact in a nonrecessionary economy.<br><br>(Note that when simulating the ARPA-expanded child credit with the prior-law earned income formula, the authors eliminate the statutory maximum amount of the refundable portion of the credit of $1,400 per child.) | "The Rescue Plan's Child Tax Credit expansions are expected to cut child poverty by over 40 percent, lifting more than 4 million children out of poverty. More than 80 percent of this effect [3.6 million children] comes from the provision making the full credit available to families even if they have low or no income." |
| Jain Family Institute, *Reducing Refundability of the Child Tax Credit: Assessing Poverty Impact and Trade-offs,* by Jack Landry and Stephen Nuñez<br><br>September 22, 2021 | **Child Poverty:** Simulated estimates of child poverty rates with and without full refundability. Specifically, the authors estimate child poverty rates with the ARPA-expanded child credit and compare them to child poverty rates with the ARPA-expanded child credit with the prior-law earned income formula used to phase-in the credit for low-income taxpayers. Estimates are made using 2018 data and simulate the impact in a nonrecessionary economy.<br><br>(Note that when simulating the ARPA-expanded child credit with the prior-law earned income formula, the authors set the maximum amount of the refundable portion of the credit at 70% of the maximum credit amount, as opposed to the statutory amount of $1,400 per child.) | "Treating the Biden [ARPA-expanded] CTC as a baseline, limiting the refundability of the CTC would increase child poverty by 53 percent, leaving behind 3.2 million children. The largest impacts would fall on Black children, increasing the Black child poverty rate by 83%." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Jain Family Institute, *Assessing Non-filer Rates & Poverty Impact for the American Rescue Plan Act's Expanded CTC*, by Jack Landry and Stephen Nuñez<br><br>September 8, 2021 | **Child poverty:** Simulated estimates of child poverty rates of the ARPA-expanded child credit under different assumptions about how many eligible non-filing households receive the benefit. | "Our analysis conservatively estimates that upwards of 6.4 million eligible children will not receive the benefit, resulting in an estimated child poverty reduction of 11 to 18 percent, and a 92 percent take-up rate. We do not know exactly who these children are, but we find a substantial portion—at least 71 percent—receive other government benefits, meaning that better data sharing between state and federal benefits agencies could offer a crucial avenue for enrollment. Greater enrollment could dramatically increase the child poverty reduction, up to 40 percent." |
| Columbia's Center on Poverty and Social Policy, *The Initial Effects of the Expanded Child Tax Credit on Material Hardship,* by Zachary Parolin et al.<br><br>August 30, 2021 | **Food Insufficiency:** Researchers estimated the impact of the first monthly CTC payment (i.e., the July payment) on food insufficiency based on data from the U.S. Census Bureau's Pulse Survey. The survey asks respondents: "In the last 7 days, which of these statements best describes the food eaten in your household?" Respondents who choose the answers "Sometimes or often not enough to eat" are considered to be food insufficient.<br><br>**Other Material Hardship Indicators:** Researchers also estimated the impact the first monthly CTC payment had on other hardship indicators, including difficultly with paying for usual household expenses and whether the household is on time with rent or mortgage payments (See Table 1 of the Columbia Center on Poverty and Social Policy report). | "Our findings offer three primary conclusions regarding the initial effects of the first monthly CTC payment delivered mid-July 2021. First, the July 2021 CTC payment strongly reduced food insufficiency among low-income households with children; a $100 increase in CTC benefits (adjusted for household-size) is associated with a 7-percentage point, or roughly 25 percent, decline in food insufficiency among low-income families who report receipt of the CTC. Second, the effects of the first CTC payment on food insufficiency are concentrated among households with annual incomes of less than $35,000. Third, increasing the coverage rate of the CTC is critical for further reducing material hardship." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Columbia's Center on Poverty and Social Policy, *Monthly Poverty Rates Among Children after the Expansion of the Child Tax Credit*, by Zachary Parolin et al.<br><br>August 20, 2021 | **Child poverty on a monthly basis:** Simulated estimates of child poverty rates and number of children in poverty using the Supplemental Poverty Measure (SPM) in July 2021, after the first advance payment of the child credit (July 2021). These estimates are also provided by race/ethnicity.<br><br>Primary estimates assume that about 60 million children live with taxpayers who receive the credit, while the maximum number of children who live in credit-eligible households is estimated to be up to 67 million. The authors also simulate a range of monthly child poverty rates under varying levels of CTC receipt (providing estimates that range from around 56 million to around 67 million children receiving the benefit). | "The monthly child poverty rate fell from 15.8 percent in June to 11.9 percent in July 2021.... This drop in child poverty is primarily due to the first payment of the expanded Child Tax Credit, which on its own kept approximately 3 million children from poverty in July; without it, the monthly child poverty rate would have been 4.1 percentage points (or 25.6 percent) higher [i.e., would have been 15.9% in July]." |
| U.S. Census Bureau, *Economic Hardship Declined in Households with Children as Child Tax Credit Payments Arrived*, by Daniel J. Perez-Lopex<br><br>August 11, 2021 | **Food Insufficiency:** The percentage of adults experiencing food insufficiency (sometimes or often not having enough to eat) before and after receipt of the first advance child credit payments in July 2021.<br><br>**Financial Hardship:** The percentage of adults having difficulty paying expenses before and after receipt of the first advance child credit payments in July 2021. | "The survey shows introduction of the [advanced] CTC coincided with a drop in food insufficiency in households with children [from 11% to 8.4%]. It also showed that in those households, there was a drop in difficulty paying weekly expenses [from 31.5% to 29.0%]." |
| Columbia's Center on Poverty and Social Policy, *The Costs and Benefits of a Child Allowance,* by Irvin Garfinkel et al.<br><br>August 2, 2021 | **Variety of Long-Term Outcomes from Increased Family Income:** Estimates the current and future benefits of an expanded child credit including increased future earnings of child beneficiaries; increased future tax payments of child beneficiaries, decreased neo-natal mortality, increased children's health and longevity, reduced transfer costs, reduced expenditures on child protection, increased safety from reductions in crime, reduced expenditures on children's and parents' health, and decreased parent tax payments. | "Converting the current Child Tax Credit to a child allowance—by making it fully refundable, increasing its value to $3,600 per child age 0-5, $3,000 per child age 6-17, and distributing it monthly—has a gross cost of about $100 billion, a net cost of only $16 billion and generates about $800 billion in benefits to society." |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Urban Institute, *How a Permanent Expansion of the Child Tax Credit Could Affect Poverty*, by Gregory Acs and Kevin Werner<br><br>July 29, 2021 | **Child Poverty**: Simulated child poverty rates and the number of children in poverty measured using the SPM during a nonrecessionary economy (2018 data used). Child poverty statistics broken down by race/ethnicity, metropolitan and nonmetropolitan areas, states, race, and ethnicity.<br>**Other Impacts:** Information on changes in family income is also provided. | "Expanding the CTC would reduce child poverty by 5.9 percentage points, from 14.2 to 8.4 percent (rounded to the nearest tenth), using 2018 as a benchmark for a typical year. That means 4.3 million fewer children would be in poverty in a typical year, representing over a 40 percent decrease in child poverty." |
| Congressional Research Service, *The Child Tax Credit: Impact of the American Rescue Plan Act (ARPA; P.L. 117-2) Expansion on Income and Poverty*, by Margot Crandall-Hollick, Jameson Carter, and Conor Boyle<br><br>July 13, 2021 | **Child Poverty:** Simulated child poverty rates measured using the SPM during a nonrecessionary economy (2016-2018 data used). Child poverty rates are broken down by race/ethnicity.<br>**Other Impacts:** Information on poverty rates of individuals who live in families with children, changes in family income, and percentage of families receiving the credit is also provided. | "CRS estimates that in a nonrecessionary economy, the ARPA expansion of the child credit will result in nearly all families with children including the lowest-income families with children, receiving the child credit [from 84% of all families with children receiving the credit before ARPA, to 96% after ARPA].... the estimates also indicate that the largest share of new recipients will be the poorest families [from 52% of poor families with children receiving the credit before ARPA to 94% after ARPA]. CRS's analysis indicates that the largest increases in income are estimated to occur among poor families with children, substantially reducing the prevalence of child poverty [i.e., the child poverty rate is estimated to fall from 13% to 7%] and the depth of poverty among families with children [i.e., the poverty gap is estimated to fall by 40%]." |
| Urban Institute, *2021 Poverty Projections: Assessing the Impact of Benefits and Stimulus Measures,* by Laura Wheaton, Linda Giannerelli, and Ilhman Dehry (This is an update of a March 2021 analysis.)<br><br>July 2021 | **Poverty:** Number of people in 2021 lifted out of poverty by age using the SPM (projected 2021 data). Estimates of the impact of the advanced child credit can be found in Table 6 of the Urban report.<br>This study also estimates the poverty impact of COVID-19 policies in combination. | For this analysis, the Urban Institute models only the benefits received in 2021—that is, the advance of the child credit, which is one-half of the total credit amount. This study finds that the advanced child credit will lift 1.8 million people out of poverty in 2021, of which 1 million are children (under 18 years old); (see Table 6 of the Urban report). |

| Study | Major Impact/Outcome Evaluated | Notes |
|---|---|---|
| Center on Budget and Policy Priorities (CBPP), *Congress Should Adopt American Families Plan's Permanent Expansion of Child Tax Credit and EITC, Make Additional Provisions Permanent*, by Chuck Marr et al.<br><br>May 24, 2021 | **Child Poverty**: The simulated reduction in child poverty rates measured using the SPM during a nonrecessionary economy (2016-2018 data used). Reductions in child poverty rates are broken down by race/ethnicity for each state.<br>**Other Impacts:** Number and percentage of children (poor and nonpoor) who would benefit is also provided by race/ethnicity for each state. | "The full Families Plan's Child Tax Credit would lift an estimated 4.1 million children above the poverty line, of whom 1.6 million are Latino, 1.2 million are white, 930,000 are Black, and 132,000 are Asian.... Of the roughly 9.9 million children it would lift above *or closer to* the poverty line, 3.8 million are Latino, 2.9 million are white, 2.1 million are Black, and 426,000 are Asian. These changes would reduce the number of children in poverty by more than 40 percent nationally." |
| American Enterprise Institute (AEI), *Unintended consequences: Democrat's child tax credit will cost jobs*, by Alex Brill and Kyle Pomerleau<br><br>April 22, 2021 | **Employment:** Simulated estimates of the impact of the ARPA-expanded child credit on employment. | "We analyzed the impact of a permanent CTC expansion on employment using AEI's Tax-Calculator along with an employment model and set of assumptions from the Congressional Budget Office (CBO). According to our calculation, the likely impact of the CTC expansion on employment will be 296,000 full-time equivalent jobs lost (+/- 155,000). This is due to both the elimination of the phase-in and the phase-out of the larger benefit." |

**Source:** CRS.

# II. Estimates of the Number of Children, Families, and Taxpayers Receiving the ARPA-Expanded Child Credit

## Children

### *By State*

- The Center on Budget and Policy Priorities (CBPP) has estimated the number of children who would be affected by the permanent extension of the ARPA-expanded child credit: by **state** (Appendix Table 1) and by **state and race/ethnicity** (Appendix Table 4). CBPP has also estimated the reduction in child poverty by **race and ethnicity** from a permanent expansion of the ARPA-expanded child credit (Appendix Table 3).
- CBPP also conducted a comparable analysis of the impact of the temporary ARPA expansion of the child credit.

### *By Congressional District*

- Representative DeLauro's office has provided estimates of the number of children impacted by the ARPA-expanded child credit for selected congressional districts (methodology can be found here).

### Families

#### *By State*

- CRS estimated the number of families eligible for the ARPA-expanded child credit. Families may include more than one taxpayer. See CD1326941, *State-Level Estimates of Eligibility for the Expanded Child Tax Credit Included in the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*, by Conor F. Boyle, Jameson A. Carter, and Margot L. Crandall-Hollick, available to congressional clients upon request from the authors.
- The Niskanen Center has also published estimates of the state-level impact of the child credit (in addition, it has provided estimates by metropolitan and nonmetropolitan areas in states, as well as national estimates by households' race and ethnicity). These accompany a report by the Niskanen Center on the economic and community impact of the credit.

#### *By Congressional District*

- The Niskanen Center has also published estimates of the county-level impact of the expanded child credit. These accompany a report by the Niskanen Center on the economic and community impact of the credit.

### Taxpayers

- The Tax Policy Center (TPC) has estimated the percentage of taxpayers who benefit from the child tax credit in 2021 after the ARPA expansion, by income level (Table T21-0044) and by income percentile (Table T21-0045) at the national level. Note that TPC's analysis is by "tax units" in which a tax unit is everyone listed on an income tax return; includes filing and non-filing units. *Tax unit* is generally used synonymously with the term *taxpayer*.
  - Estimates in Table T21-0044 can be compared to the benefit from the pre-ARPA credit in 2021 in Table 21-0042 to estimate the impact of the ARPA-expanded credit by income level.
  - Estimates in Table 21-0045 can be compared to the benefit from the pre-ARPA credit in 2021 in Table T21-0043 to estimate the impact of the ARPA-expanded credit by income percentile.
- Treasury is providing data on the number of taxpayers receiving the advanced payment of the credit by state as well as the total amount received by taxpayers in each state. See "Treasury Data on Advance Payments" in **Appendix C**.

## III. Estimates of How Families/Taxpayers Spent the Child Credit

- **Center for Law and Social Policy (CLASP)**, November 17, 2021: "The national survey of 1,012 eligible families with children ages 0-17 living at home was conducted by Ipsos, an international polling firm, with technical guidance from researchers at the University of California, Berkeley. The survey was distributed in the second and third weeks of October, after most eligible families had received up to three rounds of monthly CTC advance payments.... The most common way that respondents reported planning to use their CTC refund or monthly payments was towards paying bills, food and groceries, paying their rent

or mortgage, buying clothing and shoes, and paying down credit cards or other debt."

- **Tax Policy Center**, November 4, 2021: "In this brief, we use nationally representative data from the US Census Bureau's Household Pulse Survey collected between July and September 2021 to examine receipt and use of the advance CTC payments among adults living with children under 18, including how these vary by race, ethnicity, and household income. About half of adults (51 percent) reported spending the credit on food. The next most common purchases included clothing (30 percent), utilities (29 percent), and schoolbooks and supplies (25 percent).... Compared with adults with incomes of $75,000 or more, adults with incomes below $75,000 were more likely to spend the credit on food, clothing, utilities, schoolbooks and supplies, rent, and vehicle payments and were less likely to save the credit.... Nearly 4 in 10 adults who received the credit (39 percent) reported using it mostly to pay off debt, 3 in 10 (30 percent) mostly spent it, and 3 in 10 (30 percent) mostly saved it."
- **Census Bureau**, October 26, 2021: "Three in 10 families that received monthly Advance Child Tax Credit (CTC) payments spent them on kids' school expenses, and 1 in 4 families with young children used them to cover child care costs, according to new results from the U.S. Census Bureau's experimental Household Pulse Survey (HPS).... The majority of HPS respondents reported spending their CTC checks on more than one thing."
- **American Enterprise Institute (AEI)**, October 18, 2021: "Overall, 62 percent of parents in our sample (n=1,434) reported receiving the expanded CTC payment, below the roughly 80 percent of households with children who were eligible for the expanded payments. Less than half of these respondents said they mostly spent their payments, although another 20 percent reported using it to pay down debt. Parents in lower-income households were more likely to spend their CTC payments, while higher-income households were more likely to save the money." The survey also asked respondents about the importance of the CTC payments in meeting day-to-day expenses, the effect of receipt on employment, and support for making the expanded credit permanent.
- **University of Michigan Ford School of Public Policy**, October 2021: "To understand more about how the expanded CTC is impacting families and inform strategies to expand access to the credit, we partnered with Propel, the creators of Providers (formerly Fresh EBT), a free mobile application that helps over 5 million families manage their Supplemental Nutrition Assistance Program (SNAP) benefits. This brief discusses findings from two recent surveys with low-income families who use the Providers application, many of whom are eligible for the CTC. We found that while most respondents received the CTC and used it to pay for essential household expenses, a substantial share of CTC-eligible respondents did not receive their first two monthly payments, suggesting more outreach and supports are needed to achieve universal receipt."
- **U.S. Census Bureau,** August 11, 2021: "Many HPS [Household Pulse Survey] respondents reported spending their CTC payments on more than one thing. About 47% reported spending it on food. Nearly 10% of adults in households that received the CTC—and 17% of those with at least one child under age 5—spent their CTC on child care." More details can be found in the Detailed Tables: Child Tax Credit Table.

# Appendix B. Congressional Resources

## House Ways and Means Committee

- Ways and Means Republicans, "Debunking Myths About the Child Tax Credit," December 13, 2021
- Ways and Means roundtable, "Democrats' Welfare Expansion Will Fail the Poor and Threaten Jobs Recovery," on October 20, 2021
- Ways and Means Committee, "Markup of the Build Back Better Act," September 9, 2021-September 15, 2021
- One-pager on IRS child tax credit portals, June 10, 2021
- Child tax credit portals FAQs, June 10, 2021
- Subcommittee on Select Revenue Measures hearing, "Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy," May 12, 2021
- Subcommittee on Oversight hearing on the 2021 filing season, March 18, 2021

## House Appropriations Committee

- Subcommittee on Financial Services and General Government hearing on Treasury Oversight, May 27, 2021

## House Financial Services Committee

- Subcommittee on Consumer Protection and Financial Institutions hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System," July 21, 2021

## House Oversight and Reform Committee

- Select Subcommittee on the Coronavirus Crisis hearing, "Reviewing Pandemic Relief Programs and Charting an Economic Path Forward," September 22, 2021

## Senate Finance Committee

- Full committee hearing on the President's FY2022 budget, June 16, 2021
- Full committee hearing on the IRS's FY2022 budget, June 8, 2021
- Full committee hearing, "Combating Inequality: The Tax Code and Racial, Ethnic, and Gender Disparities," April 20, 2021
- Full committee hearing, "The 2021 Filing Season and 21st Century IRS," April 13, 2021

## Senate Banking, Housing, and Urban Affairs Committee

- Full committee hearing, "CARES Act Oversight of the Treasury and Federal Reserve: Supporting an Equitable Pandemic Recovery," September 28, 2021
- Subcommittee on Financial Institutions and Consumer Protection hearing, "Protecting Consumers from Financial Fraud and Scams in the Pandemic Recovery Economy," August 3, 2021

- Full committee hearing, "American Rescue Plan: Shots in Arms and Money in Pockets," March 25, 2021

## Joint Economic Committee

- Report, "Update: Six Months of Advance CTC Payments Have Dramatically Reduced Childhood Poverty and Improved Family Finances," December 14, 2021
- Report, "Child Tax Credits Should Promote Work, Not Undermine It," November 2, 2021
- Hearing, "Building Back Better: Raising Revenue to Invest in Shared Prosperity," October 6, 2021

# Appendix C. IRS and Treasury Resources on the ARPA-Expanded Child Credit for 2021

## IRS Resources for Taxpayers

- All information from the IRS on the child tax credit and the advance payments of the child tax credit—including Frequently Asked Questions, Tax Tips, Outreach Assistance, and news releases—can be found on the IRS resource page.
- **Non-filer Portal:** Eligible non-filers can use the IRS Child Tax Credit Non-filer Sign Up Tool to receive advance payments.[61]
  - Code for America, in partnership with the IRS and Treasury, has launched a simplified portal at GetCTC.org (the portal works on mobile devices and is also available in Spanish).[62] Data on returns processed from this portal can be found on the GetCTC Partner Dashboard.
- **Update Portal:** Eligible taxpayers who want to update information with respect to advance payments or opt out of advance payments can use the IRS Child Tax Credit Update Portal.

## Treasury Data on Advance Payments

Treasury has provided data on advance payments of the 2021 child credit by state:

- Advance Child Tax Credit Payments Disbursed December 2021, by State
- Advance Child Tax Credit Payments Disbursed November 2021, by State
- Advance Child Tax Credit Payments Disbursed October 2021, by State
- Advance Child Tax Credit Payments Disbursed September 2021, by State
- Advance Child Tax Credit Payments Disbursed August 2021, by State
- Advance Child Tax Credit Payments Disbursed July 2021, by State

## Treasury Office of Tax Analysis (OTA) Studies

- Treasury's Office of Tax Analysis (OTA) has estimated the number of taxpayers who would benefit from the child credit in 2022, under current law (i.e., the ARPA changes expiring at the end of 2021), and under the Biden Administration's proposal (i.e., if the ARPA changes were in effect in 2022). These analyses include estimates of the number of taxpayers that will benefit, the total dollar amount of the benefit, and the average benefit per taxpayer broken

[61] Links to all IRS tools for the advanced payment of the 2021 child credit can be found at https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021.

[62] See Chris Riotta, "Treasury taps Code for America for tax credit tool," *FCW*, August 13, 2021, https://fcw.com/articles/2021/08/13/getctc-code-for-america-treasury.aspx?m=1. "Wally Adeyemo, deputy secretary of the Treasury, said in a statement on Friday the agency was working with Congress to create a permanent signup tool allowing America's most vulnerable families—those who do not earn enough income to file taxes annually—to access the expanded CTC program. The administration said it would partner with the civic technology non-profit Code for America to release an initial version of that platform in order to more quickly enroll new families."

down by adjusted gross income (AGI). Detail on the Biden Administration proposal can be found in the FY2022 Treasury Greenbook.

## IRS National Taxpayer Advocate

- The IRS National Taxpayer Advocate published three blog posts in late August 2021 on the advanced monthly payments of the ARPA-expanded child credit.
  - "Advance Child Tax Credit: What You Should Know: Part I," which "addresse[s] ten things that individuals should know about the Advance Child Tax Credit (AdvCTC)";
  - "Advance Child Tax Credit: What You Should Know: Part II," which "focus[es] on issues experienced by taxpayers with Individual Taxpayer Identification Numbers (ITINs) and the issuance of paper checks versus direct deposits for the August payment"; and
  - "Advance Child Tax Credit: What You Should Know: Part III," which "explain(s) how AdvCTC tools work, including ID.me, and will discuss the struggles some taxpayers are facing in receiving their AdvCTC."

## Treasury and IRS Press Releases

- IR-2021-255, December 22, 2021, "IRS issues information letters to Advance Child Tax Credit recipients and recipients of the third round of Economic Impact Payments; taxpayers should hold onto letters to help the 2022 Filing Season experience"
- IR-2021-249, December 15, 2021, "Families will soon receive their December advance Child tax Credit payment; those not receiving payments may claim any missed payments on the upcoming 2021 tax return"
- Treasury press release jy0533, December 15, 2021, "Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children"
- IR 2021-243, December 7, 2021, "Get ready for taxes: What's new and what to consider when filing in 2022"
- IR-2021-235, November 23, 2021, "Child Tax Credit payments: IRS online portal now available in Spanish; Nov. 29 is last day for families to opt out or make other changes"
- Treasury press release jy0482, November 15, 2021, "Treasury and IRS Disburse Fifth Month of Advance Child Tax Credit Payments"
- IR-2021-222, November 12, 2021, "IRS: Families will soon receive November advance Child Tax Credit payments; time running out to sign up online to get an advance payment in December"
- IR 2021-218, November 9, 2021, "IRS updates 2021 Child Tax Credit and Advance Child Tax Credit Payments Frequently Asked Questions"
- IR-2021-211, October 29, 2021, "Child Tax Credit: Families with income changes must enter them in IRS online portal on Monday to impact Nov. 15 payment; Spanish version coming in late November"
- IR-2021-201, October 15, 2021, "IRS: Families now receiving October Child Tax Credit payments; still time for eligible families to sign up for advance payments"

- Treasury press release jy0411, October 15, 2021, "Treasury and IRS Disburse Fourth Month of Advance Child Tax Credit Payments"
- IR-2021-188, September 15, 2021, "IRS: Families now receiving September Child Tax Credit payments"
- Treasury readout jy0341, September 1, 2021, "Readout: Treasury, White House, and Code for America Host Call to Discuss Collaboration and Launch of New Bilingual and Mobile-Friendly Sign-Up Tool for Advance Child Credit"IR-2021-171, August 20, 2021, "Child Tax Credit: New update address feature available with IRS online portal; make other changes by August 30 for September payment"
- IR-2021-169, August 13, 2021, "IRS: Families now receiving August Child Tax Credit payments; still time for low-income families to sign up"
- Treasury press release jy0322, August 13, 2021, "Treasury and IRS Disburse Second Month of Advance Child Tax Credit Payments"
- IR-2021-156, July 21, 2021, "IRS holds additional weekend events July 23-24 to help people with Child Tax Credit payments and Economic Impact Payments"
- IR-2021-153, July 15, 2021, "IRS: Monthly Child Tax Credit payments begin"
- Treasury press release jy0274, July 15, 2021, "Treasury and IRS Announce Families of Nearly 60 Million Children Receive $15 Billion in First Payments of Expanded and Newly Advanceable Child Tax Credit"
- IR-2021-150, July 12, 2021, "IRS: Online Child Tax Credit eligibility tool now available in Spanish; other multi-lingual materials help families see if they qualify for advance payments"
- IR-2021-146, July 7, 2021, "IRS holds special weekend events to help people who don't normally file taxes get Child Tax Credit payments and Economic Impact Payments"
- IR-2021-143, June 30, 2021, "IRS: Families receiving monthly Child Tax Credit payments can now update their direct deposit information"
- IR-2021-133, June 24, 2021, "IRS online tool helps families see if they qualify for the Child Tax Credit; one of three tools now available for the upcoming advance payments"
- IR-2021-132, June 23, 2021, "IRS and community partners team up to provide free tax help for families to get advance Child Tax Credit payments and Economic Impact Payments"
- IR-2021-130, June 22, 2021, "IRS announces two new online tools to help families manage Child Tax Credit payments"
- IR-2021-129, June 14, 2021, "IRS unveils online tool to help low-income families register for monthly Child Tax Credit payments"
- Treasury press release jy0227, June 14, 2021, "Treasury and IRS Announce New Online Tool to Help Families Register for Monthly Child Tax Credit"
- IR-2021-124, June 7, 2021, "IRS sending letters to more than 36 million families who may qualify for monthly Child Tax Credits; payments start July 15"
- IR-2021-116, May 19, 2021, "IRS urges groups to share information to help those without permanent addresses get benefits including Economic Impact Payments, upcoming advance Child Tax Credit"

- IR-2021-113, May 17, 2021, "IRS, Treasury announce families of 88 percent of children in the U.S. to automatically receive monthly payment of refundable Child Tax Credit"
- Treasury press release jy0177, May 17, 2021, "Treasury and IRS Announce Families of 88% of Children in the U.S. to Automatically Receive Monthly Payment of Refundable Child Tax Credit"
- IR-2021-106, May 11, 2021, "IRS offers overview of tax provisions in American Rescue Plan; retroactive tax benefits help many people now preparing 2020 returns"
- Treasury press release jy0069, March 18, 2021, "FACT SHEET: The American Rescue Plan Will Deliver Immediate Economic Relief to Families"

# Appendix D. Steps to Reconcile Excess Advance Payments of the Child Credit Due to an Incorrect Number of Qualifying Children

**Table D-1** outlines the steps a taxpayer would take to reconcile any excess advance payments of the child credit with the credit they are eligible to claim on their 2021 income tax return. In addition, **Table D-1** provides an illustration of how the safe harbor would work. ARPA provides a safe harbor in cases where a taxpayer receives excess payments due to a difference in the number of children between the data used to estimate and advance the credit (generally 2020 tax data) and the number of children they claim on their 2021 tax return. In cases where excess payments are due to large changes in income between 2020 and 2021, changes in marital status, or changes in principal place of abode, no safe harbor applies.

**Table D-1. Steps for Reconciling Advance Payments of the Child Credit with the Actual Credit on 2021 Income Tax Returns**

For Excess Payments That Occur Due to an Incorrect Number of Qualifying Children

| **Steps to Reconcile Excess Advance Payments of the 2021 Child Credit** | **Example 1**<br>Single parent with 2 qualifying young children in 2020 and 1 young child/0 older children in 2021 | **Example 2**<br>Single parent with 2 qualifying young children in 2020 and 0 qualifying children in 2021 |
|---|---|---|
| **Step 1: Determine "excess" credit.** | For example: If the taxpayer's income is under $112,500 (in 2020 and 2021), then: | For example: If the taxpayer's income is under $112,500 (in 2020 and 2021), then: |
| A. Calculate the total credit the taxpayer is eligible for on their 2021 return. | A. Total 2021 credit: $3,600 | A. Total 2021 credit: $0 |
| B. Calculate the total amount they were advanced in 2021 (based on 2020 information). | B. Total amount advanced: $3,600 (50% of $7,200) | B. Total amount advanced: $3,600 (50% of $7,200) |
| C. Subtract the advance (B) from the total they are actually eligible for (A). *Negative sign indicates excess credit. Positive sign indicates additional amount to be claimed with return. Note that throughout the remainder of the table, excess credit will be displayed as a positive number for ease of calculations.* | C. Excess credit: $0 (=$3,600-$3,600) | C. Excess credit: -$3,600 (=$0-$3,600) |
| *If B is greater than A, the taxpayer will have received an excess credit (the difference between A and B). In cases where the taxpayer has received an excess credit, the taxpayer may need to repay some or all of the excess (continue on to the steps below).* | *The difference between the actual credit they are eligible for in 2021 and the advanced credit is $0. The taxpayer will effectively not receive a credit when they file their 2021 return, because they already received it as the advanced credit.* | |

| | | |
|---|---|---|
| **Step 2. Determine maximum safe harbor amount.** | Not applicable, no excess payment. | |
| A. Determine net difference between (i) Number of qualifying children used to determine *advanced credit* and (ii) number eligible for *actual credit* in 2021. | | A. The net difference between (i) the number of qualifying children from a 2020 tax return (2 children) used to determine the advanced credit and (ii) the number of children claimed on a 2021 tax return (0 children) is 2 children. |
| B. Multiply (A) by $2,000. | | B. $2\ children\ x\ \$2{,}000 = \$\mathbf{4{,}000}$ |
| **Step 3: Phaseout maximum safe harbor, if applicable.** Depending on income and filing status in 2021, the maximum safe harbor may be subject to reduction. | Not applicable, no excess payment. | |
| No phaseout: If 2021 income is less than or equal to the following thresholds, the safe harbor is not reduced.<br>$40,000 single filers[a]<br>$50,000 head of household filers<br>$60,000 married joint filers[b] | | No phaseout: If a single person in 2021 (i.e., single filer in 2021) has income of $40,000 or less, their safe harbor is not reduced (i.e., it equals the maximum safe harbor amount). |
| Phaseout: The safe harbor is reduced ratably (i.e., proportionally) if 2021 income is between<br>$40,000-$80,000 single filers[a]<br>$50,000-$100,000 head of household filers<br>$60,000-$120,000 married joint filers[b] | | Phaseout: If a single person in 2021 has income between $40,000 and $80,000, the maximum safe harbor phases out ratably in relation to income in the phaseout range. For example, if income were $60,000 in 2021, the maximum safe harbor would be reduced by:<br>$\left[\frac{\$60{,}000-\$40{,}000}{\$80{,}000-\$40{,}000}\right]$=50%<br>A $4,000 safe harbor reduced by 50% would equal $2,000. |
| No safe harbor if 2021 income is greater than or equal to<br>$80,000 single filers[a]<br>$100,000 head of household filers<br>$120,000 married joint filers[b] | | No safe harbor: If a single person in 2021 has $80,000 or more in income, their safe harbor amount is $0. |

| | | |
|---|---|---|
| **Step 4: Calculate the amount of any excess credit that needs to be recaptured (or paid back) on 2021 tax return:**<br>Subtract the safe harbor amount (determined after step 3) from the total amount of excess credit (determined in step 1) in 2021.<br>If the safe harbor amount is greater than or equal to excess payment, none of the advanced amount needs to be paid back. | Not applicable, no excess payment. | If income in 2021 for a single person is:<br>Under $44,000: Payback amount is $0 since the excess credit of $3,600 is less than the $4,000 safe harbor when income is $40,000 or less. Between $40,000 and $44,000 the safe harbor gradually declines but is still greater than or equal to $3,600.<br>$44,000+: Payback amount equals $3,600 excess credit *minus* safe harbor until income is $80,000 or more, at which point the total excess credit of $3,600 needs to be repaid.<br>*If income was $60,000, the safe harbor would be $2,000, the single person would need to pay back $3,600-$2,000 or $1,600* with their 2021 tax return.<br>*If income was $80,000 or more, the safe harbor would be $0, the single person would need to pay back all* $3,600 *in excess credit with their 2021 return.* |

**Source:** CRS analysis of P.L. 117-2.

**Notes:** Assumes advanced payment that would be received in 2021 would be based on 2020 income and family structure (number of qualifying children and marital status). Broadly, income is assumed to be the same between 2020 and 2021 to isolate the impact of a changing number of qualifying children.

a. This includes married taxpayers who file separately.

b. This includes taxpayers who file as surviving spouses.

# Appendix E. The Child Credit and Residents of U.S. Territories

Below is a summary comparing child credit receipt among residents of the territories, before ARPA, in 2021 under current law as amended by ARPA, and after 2021 under current law as amended by ARPA.

**Table E-1. Child Tax Credit for Residents of the Territories**

| Territory | 2021 Under Prior Law (Before ARPA) | 2021 Under Current Law (as amended by ARPA) | Post 2021 Under Current Law (as amended by ARPA) |
|---|---|---|---|
| **Puerto Rico (PR)** | PR did not have a child credit under its own internal revenue laws.<br><br>PR residents with three or more qualifying children received the ACTC under the alternative formula.[a] Under this formula, the ACTC effectively equaled 7.65% of earned income up to the maximum ACTC of $1,400 per qualifying child. Residents with fewer than three qualifying children did not receive the ACTC.<br><br>PR residents with three or more children claimed the federal ACTC amount by filing a return with the IRS directly. They did not receive the ACTC via their territorial tax system. | PR does not have a child credit under its own internal revenue laws.<br><br>PR residents are eligible for the fully refundable ARPA-expanded child credit (up to $3,600 per young child or up to $3,000 per older child).<br><br>PR residents will claim the total 2021 federal credit amount by filing a 2021 return with the IRS directly.[b] The federal advance payment program of the ARPA-expanded credit does not apply to PR residents. | PR does not have a child credit under its own internal revenue laws.<br><br>PR residents will be eligible for the ACTC using the alternative formula. The prior-law limitation of the alternative formula to only families with three or more children is eliminated. Effectively, PR residents are eligible for a credit equal to 7.65% of earned income up to the maximum ACTC per child. From 2022-2025 the maximum is $1,400 per qualifying child. Beginning in 2026, the maximum amount of the ACTC is $1,000 per qualifying child.<br><br>PR residents will claim the federal ACTC amount by filing a return with the IRS directly. |
| **American Samoa (AS)** | AS appears to have a child credit under its own internal revenue laws that reflects the parameters of the federal child credit in effect in 2000. (In 2000, the child credit was $500 per qualifying child and refundable for families with three of more children under the alternative formula.) However, it is unclear in practical terms precisely how and to what extent residents of American Samoa received the child credit under their own territorial tax system.[c]<br><br>Available information suggests that residents with three or | If AS has a plan approved by the Treasury Secretary to distribute the ARPA-expanded child credit amounts to its residents, Treasury is directed to cover the *total cost* of the ARPA-expanded child credit as if American Samoa had a mirror-code tax system. In addition, if AS chooses to provide advance payments of the 2021 credit in a manner similar to the federal program to advance the 2021 credit, Treasury will provide an additional $300,000 for administrative costs. | If AS has a plan approved by the Treasury Secretary to distribute child credit amounts to its residents, Treasury is directed to cover the *total cost* of child credit—the refundable portion (i.e., the ACTC) and nonrefundable portion—as if American Samoa had a mirror-code tax system. From 2022 to 2025, the maximum child credit amounts are $2,000 per child, of which $1,400 may be received as the refundable portion of the credit (i.e., the ACTC). From 2026 and thereafter, the amounts are $1,000 per qualifying child, of |

| Territory | 2021 Under Prior Law (Before ARPA) | 2021 Under Current Law (as amended by ARPA) | Post 2021 Under Current Law (as amended by ARPA) |
|---|---|---|---|
| | more children received the ACTC as calculated under the alternative formula. The IRS Chief Financial Officer (IRS-CFO) covered the costs of the ACTC under the alternative formula by making an aggregate payment to the territorial government. The exact manner and timing in which the territorial government then made direct payments to its residents is unclear.[d] | If no such plan is established and approved, AS residents can apply for the ARPA-expanded credit by filing a tax return directly with the IRS, like residents of PR. | which $1,000 per qualifying child may be received as the ACTC. For these purposes, the ACTC may be calculated under the earned income formula, which is generally more generous than the alternative formula.[e]<br><br>If no such plan is established and approved, AS residents can apply directly with the IRS for the ACTC calculated under the alternative formula, like residents of PR. In this case, the prior-law limitation of the alternative formula to only families with three or more qualifying children does not apply (i.e., the same treatment as residents of Puerto Rico). |
| **Mirror-Code Territories (CNMI, Guam, USVI)**. | Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code. Hence, residents of mirror-code territories may be eligible for a child credit identical to the credit in the Internal Revenue Code (IRC). However, it is unclear in practical terms whether and to what extent residents of mirror-code territories actually receive a credit under their own territorial tax laws.[f]<br><br>Available information suggests that residents with three or more children received the ACTC under the alternative formula. The IRS-CFO covered the total cost of the ACTC under the alternative formula by making aggregate payments to the territorial governments. The exact manner and timing in which the territorial governments then made direct payments to their residents is unclear. | Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code.<br><br>Residents of mirror-code territories are eligible for the fully refundable ARPA-expanded child credit (up to $3,600 per young child or $3,000 per older child).<br><br>Residents of the mirror-code territories will claim the benefit on their territorial tax return. The law directs Treasury to cover the total cost of the ARPA-expanded child credit as paid out by territorial governments<br><br>In addition, if a mirror-code territory chooses to provide advance payments of the 2021 credit in a manner similar to the federal program to advance the credit, Treasury will provide an additional $300,000 for administrative costs. | Mirror-code territories by definition have a child tax credit identical to the federal child tax credit in their own territorial tax code.<br><br>Hence, residents of mirror-code territories may be eligible for a child credit identical to the credit in the Internal Revenue Code (IRC). From 2022 to 2025, the maximum child credit amounts are $2,000 per qualifying child, of which $1,400 may be received as the refundable portion of the credit (i.e., the ACTC). From 2026 and thereafter, the amounts are $1,000 per qualifying child, of which $1,000 per qualifying child may be received as the ACTC. The ACTC may be calculated under the earned income formula, which his generally more generous than the alternative formula.[e]<br><br>Residents of the mirror-code territories will claim the benefit on their territorial tax return. The law directs Treasury to cover the total cost of the child credit (both |

| Territory | 2021 Under Prior Law (Before ARPA) | 2021 Under Current Law (as amended by ARPA) | Post 2021 Under Current Law (as amended by ARPA) |
|---|---|---|---|
| | | | refundable portion [i.e., the ACTC] and nonrefundable portion) as paid out by the territorial government. |

**Sources:** CRS Analysis of Internal Revenue Code (IRC) §24, P.L. 117-2, and JCX-3-21.

**Notes:** This reflects current law and practice and is subject to change for legislative activity, as well as additional information. These summaries assume that residents of these territories generally only file a territorial tax return with their local tax authority, and aside from claiming the ACTC, are not required to file a U.S. federal income tax return. In cases where taxpayers are required to file a U.S. federal income tax return, they may be eligible to claim the child credit on that return.

a. Under IRC §24(d)(1)(B)(ii), the alternative formula available to taxpayers with three or more qualifying children is equal to the difference in the employee's share of Social Security taxes and Medicare taxes and their EITC. Since territorial residents are generally ineligible for the EITC, the alternative formula is effectively 7.65% of earned income (i.e., W-2 wages, railroad retirement compensation, and self-employment income) up to the maximum ACTC. The maximum ACTC in 2021 before ARPA was $1,400 per qualifying child and is scheduled to remain at that level from 2022 to 2025. Beginning in 2026, the maximum ACTC is scheduled to be $1,000 per qualifying child.

b. IRS Form 1040-SS or Form 1040-PR.

c. While American Samoa's internal revenue laws may reflect the credit in place in the Internal Revenue Code for 2000, other forms available on the American Samoan website indicate that eligible residents may be able to claim the ACTC under the alternative formula if they have three or more children. See IRS, *Bona Fide Residents of American Samoa—Tax Credits*, https://www.irs.gov/individuals/bona-fide-residents-of-american-samoa-tax-credits, and see schedule 8812 for AS Form 390 for 2020, available at https://www.americansamoa.gov/tax-office. In addition, a 2019 local news article reported that the maximum amount of the ACTC increased to $1,400 per child beginning in 2018, up from $1,000 per child, reflecting changes made to the child credit as part of P.L. 115-97. See *Talanei*, "Additional Child Tax Credit is now $1,400," January 31, 2019, https://www.talanei.com/2019/01/31/additional-child-tax-credit-is-now-1400/.

d. For example, an April 2019 American Samoan news article about delays in receiving American Samoan tax refunds from 2018 returns stated, "Just in time for Flag Day and Easter, tax refund checks—for those who qualify—will be released today; but only the locally funded ones, it does not include the Additional Child Tax Credit (ACTC), which is funded by the U.S. Internal Revenue Service.... For taxpayers expecting tax refunds including the ACTC, 'please be informed that all are on hold for now as we await a decision' from the IRS and the US Treasury Department." Fili Sagapolutele, "Tax refunds to be issued today—but no Additional Child Tax Credit yet," *Samoa News*, April 12, 2019, https://www.samoanews.com/local-news/tax-refunds-be-issued-today-no-additional-child-tax-credit.

e. Under current law, the earned income formula is 15% of earned income above $2,500 up to a maximum of $1,400 per child (this amount is adjusted for inflation). This formula is in effect from 2022 through 2025. Beginning in 2026, the formula is scheduled to be 15% of earned income above $3,000 up to a maximum of $1,000 per child.

f. For example, even if a territorial resident were eligible for the full value of the child credit (both the refundable portion [i.e., ACTC] and the nonrefundable portion) under their own territorial income tax law, the territorial government may have recaptured some or all that credit by enacting an excise tax credit.

## Author Information

Margot L. Crandall-Hollick
Specialist in Public Finance

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