

Child Care Tax Credit

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A/S APRIL 1, 2021

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CREATIVE INVESTMENT RESEARCH

Compiled by Susan Quigley, CFP
www.SquigleyFinancial.com a/s April 1, 2021



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Child Tax Credit

- ▶ Child Tax Credit increased to \$3,000 (\$3,600 for children age 0-5) until 1/1/2022
- ▶ Due to COVID you have the option to use either your 2019 or 2020 income when calculating your child tax credit.
- ▶ Older kids eligible \$500 for each child aged 17 and 18 and for full time college students between the ages of 19 and 24

Credit reduced \$50 for each \$1,000 AGI above the thresholds below

Filing Joint	\$150,000
Head of Household	\$112,500
Single	\$75,000

Advance on Child Tax Credit



- ▶ You can receive an advance of 50% of your qualifying child tax credit for 2021 (the taxes you will file in April 2022)
- ▶ Can start to receive your tax credit if:
 - ▶ Your baby is born during 2021 or you adopt a US child . (The IRS has set up a portal to update family information to begin receiving the credit.
<https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021>)
 - ▶ There is a significant change in the taxpayer's income
 - ▶ A change in marital status
 - ▶ Any factor that may be introduced by the IRS later
- ▶ The IRS will send you a notice with the aggregate amount of the payments received by January 31st of the year after you received payments

Treasury is setting up the site to OPT OUT of the advance. This will be an OPT OUT system so if you use your full child tax credit as a reliable windfall around tax time don't forget to OPT OUT by July 1st, 2021

Adoption Tax Credit



- ▶ Nonrefundable tax credit for qualified adoption expenses paid to adopt an eligible child.
- ▶ If you're adopting a child with special needs, you can receive the credit without any adoption expenses.
- ▶ If your modified adjusted gross income is between \$214,520 and \$254,520 the credit is reduced
- ▶ The maximum dollar amount for the 2020 adoption tax credit is \$14,300
- ▶ Eligible adoption expenses include
 - ▶ Reasonable and necessary adoption fees
 - ▶ Court costs and attorney fees
 - ▶ Traveling expenses (meals and lodging included)
 - ▶ Other expenses that are directly related to and for the principal purpose of the legal adoption of an eligible child

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Impact of Dropping the Minimum AGI for Child Tax Credit

- ▶ The Child Tax Credit expansion would lift 4.1 million children out of poverty, according to the Center on Budget and Policy Priorities, and cut the number of children in poverty by more than 40%.
- ▶ The CBPP found 27 million more children will be eligible for the full amount
- ▶ The infusion of cash is a rapid shift from previous economic recovery efforts.
 - ▶ “Unemployment benefits also boost the economy. They provide the biggest bang for the buck of the various kinds of government spending. Over the Great Recession, for every \$1 spent on unemployment insurance benefits, the economy grew by \$2, since recipients typically spend—not save—those dollars. That spending helps boost local economies as the unemployed can continue to pay their mortgage or rent and put food on the table.” – Dr. Wayne Vroman



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Child and Dependent Care Tax Credit

- ▶ Child and Dependent Care Credit is a tax credit you can use for eligible dependent care services, such as preschool, summer day camp, before/after school programs, and child/adult daycare.
- ▶ Qualified individuals include:
 - ▶ Children under 13
 - ▶ Older spouse/relative who is physically/mentally incapable of self care
- ▶ Maximum deduction is \$16,000 for two dependents and \$8,000 for one.

NOTE: THE SECOND SPOUSE MUST WORK OR GO TO SCHOOL TO USE THIS

Dependent Care Credit

- ▶ The refundable dependent care credit increased to \$8,000/\$16,000 per 1/2 qualifying individuals
- ▶ The credit is reduced by 1% per \$2000 AGI above \$150,000, but not below 20%



American Rescue Plan Act's Impact on the Dependent Care Credit



		Maximum Eligible Expenses	Maximum Applicable %	Maximum Credit
OLD LEVELS or PRE-ARPA	1 Qualifying Child/Dependent	\$3,000	35%	\$1,050
	2 or more Qualifying Child/Dependents	\$6,000	35%	\$2,100
ARPA	1 Qualifying Child/Dependent	\$8,000	50%	\$4,000
	2 or more Qualifying Child/Dependents	\$16,000	50%	\$8,000

There is a **new complete phaseout** for taxpayers (regardless of filing status) whose AGI exceeds \$400,000. Once a taxpayer's AGI exceeds \$400,000, the 20% is decreased by 1% for every \$2,000 of AGI which means that at \$440,000 of AGI, the credit is completely phased out. The pre-ARPA rules for this credit did not have a phaseout and the 20% applied for all levels of income



New Limit for Contributions to a Dependent Care Flexible Spending Account (FSA)

- ▶ Employees can normally contribute up to \$5,000 to a dependent care FSA each calendar year if filing *married filing jointly*, single or head of household or \$2,500 if filing *married filing separately*. In 2021 these limits are more than doubling to \$10,500 and \$5,250.
- ▶ These limits are not dependent on how many qualifying children (age 13 and under at the end of the calendar year rule still applies) or qualifying dependents that you have and there are no income limitations for being able to contribute.
- ▶ **NOTE: THE SECOND SPOUSE MUST WORK OR GO TO SCHOOL TO USE THIS**