

TAX RELIEF FOR INDIVIDUALS

Congress has passed several rounds of financial assistance and relief in response to the COVID-19 pandemic, including most recently the *American Rescue Plan*. The *American Rescue Plan* includes additional tax relief for individuals and families.

*** WHAT IS NEW IN THE AMERICAN RESCUE PLAN ***

The *American Rescue Plan* expands the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), and the Child and Dependent Care Tax Credit to provide more financial support for individuals and families throughout 2021. [Details are below.](#)

Child Tax Credit

Under the *American Rescue Plan*, the Child Tax Credit is enhanced in the following ways for 2021:

- The maximum credit is increased from \$2,000 to \$3,000, with an additional \$600 for each child under the age of six, and extends the full credit to 17 year old children.
 - The increased amount phases out at \$150,000 for married taxpayers filing jointly, \$112,500 for heads of households, and \$75,000 for individual filers.
- The CTC is fully refundable for 2021. As a result, if the maximum CTC would be greater than your tax liability, you will receive the excess from the IRS.
- The IRS will send out funds on a periodic basis (ideally monthly) starting this July until December 2021, instead of making families wait until tax season to claim the credit. Families should receive about half of the benefit of the CTC by December, and then they claim the rest on their 2021 tax return.
- The CTC is extended to families in Puerto Rico and other U.S. territories.

Earned Income Tax Credit

The *American Rescue Plan* expands the EITC for taxpayers with no qualifying children for 2021 in the following ways:

- Lowers the minimum age to claim the EITC without children from 25 to 19 (for full-time college students who are not foster youth or homeless youth, the minimum age is 24) and eliminated the upper age limit so that people age 65 and over are eligible.
- Increases the benefit from \$543 to \$1,502.
- Increases the credit amount and phase-out percentage from 7.65 to 15.3 percent.
- Increases the income at which the maximum credit amount is reached to \$9,820, and increases the income at which the phase-out begins to \$11,610 for non-joint filers.
- Repeals a provision of law in order to allow a taxpayer to claim the childless EITC if they cannot claim the EITC for otherwise qualifying children because their children do not have valid Social Security numbers.
- Allows married but separated individuals to be treated as not married for the purpose of the EITC if a joint return is not filed. This applies to taxpayers who live with a qualifying child for more than half of the year but either do not live with their spouse or have a separation decree or agreement in place.
- Allows taxpayers to use their 2019 earned income for their 2021 earned income for the purposes of claiming their EITC, if their 2021 earned income was less than their 2019 earned income.

Children and Dependent Care Credit

The *American Rescue Plan* makes enhancements to the Children and Dependent Care credit:

- For 2021, the CDCTC is fully refundable.
- The credit is also fully available to families making less than \$125,000—up from \$15,000—and partially available to families earning between \$125,000 and \$400,000.
- The credit is increased from 35% of \$3,000 for one child (\$6,000 for two or more) to 50% of \$8,000 for one child (\$16,000 for two or more). At \$125,000, the credit rate begins to phase out and plateaus at 20%, before phasing out completely for families making \$500,000.
- The exclusion for employer-provided dependent care assistance is increased from \$5,000 to \$10,500 for 2021.

More Information

For more information, please check the IRS's website at <https://www.irs.gov/coronavirus>.