

The 2021 Earned Income Tax Credit and Child Tax Credit

What's New and What You Need to Know

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Center on Budget and Policy Priorities

Nonpartisan research and policy institute

We pursue federal and state policies designed both to reduce poverty and inequality in equitable and effective ways.

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National effort to connect eligible people to tax benefits

Promote the Earned Income Tax Credit, the Child Tax Credit, free tax preparation, and other tax benefits

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The Child Tax Credit (CTC)

- **What is it?**

- A federal tax credit intended to help with the costs of raising kids
- Under the American Rescue Plan, almost every family can receive money from the CTC

- **How Much is it Worth?**

- \$3,600 for each child under 6 years old
- \$3,000 for each child between 6 and 17 years old

- **Who's Eligible?**

- 3 factors contribute to CTC eligibility:

1. **Income** - no income requirement!

- Max credit phases out at:

- \$75,000 – single
- \$112,500 – head of household
- \$150,000 – married filing jointly

2. **Taxpayer ID # (TIN)** - parent or guardian must have an SSN or Individual Taxpayer Identification Number (ITIN)

3. **Qualifying Child** - based on relationship, age, residency, dependency, TIN, and support

CTC – What's New?

1. Advance Payments

- In 2021, the IRS issued half the credit through advance payments
- You must file a tax return to get the remaining credit
- If you didn't get advance payments, you must file a tax return to get the credit

2. Larger Credit

- Increased credit amount – previously \$2,000/child
- No min. earnings – previously had to earn \$2,500 to get the CTC refund

3. Repayment Protections

- Congress enacted a [repayment protection](#) for families with lower incomes if the IRS makes an overpayment for the advance CTC for a child that someone isn't eligible to claim.
- **People earning less than the following amounts in 2021 will not have to repay anything:**
 - \$40,000 – single filer
 - \$50,000 – head of household
 - \$60,000 – married filing jointly

4. What Else to Know

- [IRS Letter 6419, Advance Child Tax Credit Payments](#)
- [Custody and the CTC guidance](#)



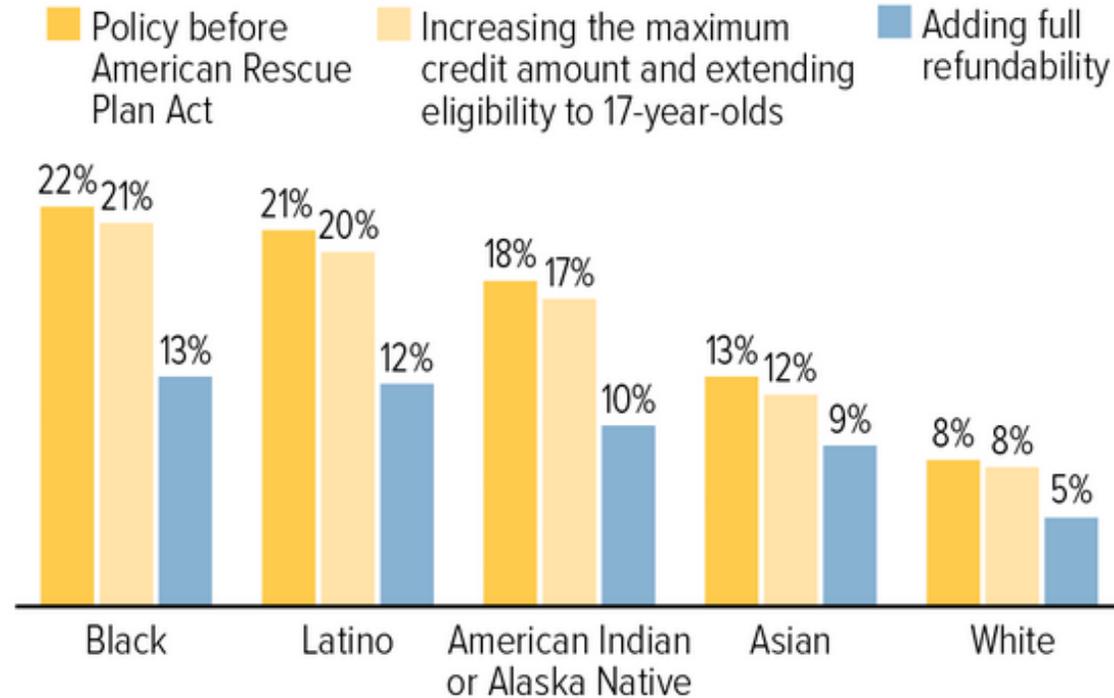
The Impact of Advance CTC Monthly Payments

FIGURE 2



Full Refundability Provision of the Expanded Child Tax Credit Cuts Child Poverty, Narrows Racial and Ethnic Differences in Poverty Rates

Percent of children in poverty



[Build Back Better's Child Tax Credit Changes Would Protect Millions From Poverty — Permanently](#)

Note: Full refundability = families with little or no income for the year can receive the full credit. All estimates reflect a pre-pandemic economy, using tax year 2021 tax rules and incomes adjusted for inflation to 2021 dollars. American Indian and Alaska Native (AIAN) children may be AIAN alone or in combination with other races and ethnicities. Latino (short for Latino, Hispanic, or Spanish origin) may be of any race. Other racial/ethnic groups refer to children of that race alone and not Latino. The middle bar shows estimated child poverty rates if the Child Tax Credit were expanded to \$3,600 per child under 6 (\$3,000 per child 6-17) but retained the \$2,500 earned income floor and 15% phase-in rate present under pre-Rescue Plan law (but removing the \$1,400 per child cap on refundability). Bar heights reflect unrounded values.

Source: CBPP analysis of the Census Bureau's March 2019 Current Population Survey (for national total) allocated by race or ethnicity based on CBPP analysis of American Community Survey data for 2016-2018.

The Earned Income Tax Credit (EITC)

• What is it?

- A federal tax credit that can provide money back or lower federal taxes owed for people who work

• How Much is it Worth?

- In 2021, the credit is worth up to:
 - \$6,728 for workers raising 3 or more children
 - \$5,980 for workers raising 2 children
 - \$3,618 for workers raising 1 child
 - \$1,502 for workers not raising children

• Who's Eligible?

- 3 factors contribute to EITC eligibility:

1. Income

- You need to work and earn income
- Earned income includes wages, salary, tips, employer-based disability, self-employment income, military pay, or union strike benefits

2. Taxpayer ID # (TIN)

- A worker, spouse and child need to have SSNs that permit work
- You cannot claim the federal EITC if you file taxes with an ITIN.

3. Qualifying Child

- Different from CTC
- Based on relationship, age, and residency of child



How Much Can Workers Earn and Qualify for the EITC?

Income Limits for Tax Year 2021:

Number of children:	Single income less than:	Married income less than:	EITC up to:
3 or more children	\$51,464	\$57,414	\$6,728
2 children	\$47,915	\$53,865	\$5,980
1 child	\$42,158	\$48,108	\$3,618
No children	\$21,430	\$27,380	\$1,502

- Workers not raising children must be 19 or older (there is an exception)
- Investment income cannot exceed \$10,000

EITC – What's New?

1. 1-year Expansion for Workers Not Raising Children

- Newly eligible population:
 - 19-24 and 65+ year-olds
 - If 19-23, cannot be a FT or PT student for more than 5 months in 2021
 - 18-year-olds who are homeless or former foster youth
- Credit value tripled – previously worth up to \$538

2. EITC Lookback for 2019 Income

- If your income in 2021 was less than your 2019 income, you can use your 2019 earned income to calculate your EITC
- Choose the year that gives you the bigger refund

3. Investment Income Increase

- The allowed investment income to claim the EITC is permanently increased to \$10,000 from \$3,650

4. Married Filing Separately (MFS)

- Someone MFS may be able to claim the EITC if they live with the child for > 6 months and:
 - Do not live with the spouse during the last 6 months of the year OR
 - Have an agreement with the spouse and don't live together

5. Qualifying Child Without an SSN

- You can claim the EITC for workers without children if you have a qualifying child for the EITC who doesn't have an SSN

6. U.S. Commonwealth or Territories

- Individuals living in the following locations are allowed to claim the EITC:
 - Puerto Rico
 - U.S. Virgin Islands
 - Guam
 - The Commonwealth of the Northern Mariana Islands
 - American Samoa

Who Benefits from the EITC Expansion?

APPENDIX TABLE 4

Estimated Number of Working Adults Without Children Who Would Benefit From EITC Expansion in Build Back Better Legislation, by State and Race/Ethnicity

Relative to without the expansion

State	Total	White	Latino	Black	Asian	Another race or multiple races
Total U.S.	17,445,400	9,658,700	3,639,600	2,739,300	815,700	592,100

Claiming the EITC & CTC

- You must file a 2021 tax return to get the expanded EITC & CTC.
 - Both, families who got advance payments in 2021 and those who didn't receive advance payments need to file a tax return.
 - Free tax filing assistance is available.
 - Go to [GetYourRefund.org](https://www.getyourrefund.org) to learn more.
- If you missed your third stimulus payment, you could also claim it on your 2021 tax return.
 - You must file a 2020 tax return to get missing first and second stimulus checks.
- Tax Day is April 18, 2022.



Contact Info

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Let's keep in touch

Tax credits help working families and their communities thrive. Sign up to help spread the word about these important tax credits and free tax filing. We send occasional emails with resources to help your work.

<http://eepurl.com/gdlHn1>