

# 2021 Child Tax Credit, Earned Income Tax Credit & Child & Dependent Care Deductions

► Tax benefits are expanding for many Americans this year because of the American Rescue Plan Act of 2021. The direct benefits for individuals and families include tax credits, direct payments, housing, health, and small business support. For a complete list of the benefits to families and information on how to access these benefits, see the [Accessing American Rescue Plan Provisions](#) article on the Alabama Extension website at [www.aces.edu](http://www.aces.edu).

The American Rescue Plan has direct benefits in the form of IRS tax credits for households. The plan increased child and dependent care credit and the Child Tax Credit (CTC). More families also qualify for the Earned Income Tax Credit. People who have earned little or no income from work, business, or investments may be able to get these credit benefits. A tax return must be filed with the Internal Revenue Service (IRS) to receive the Child Tax Credit, Earned Income Tax Credit, or claim eligible child and dependent care expenses. Even those who do not usually or regularly file a tax return must file in 2021 to take advantage of the tax benefits.

This document details both the Child Tax Credit and the Earned Income Tax Credit as well as eligible child and dependent care expenses, who is eligible, and how to claim the credits and expenses on your tax return.

## Child Tax Credit

The Child Tax Credit is expanding for the 2021 tax year. The changes increased the amount of the credit from \$2,000 to \$3,000 for children ages 6 to 17 and \$3,600 for children 5 years and younger. The act also made the credit available to more families. It is payable as a monthly advance and is fully refundable. Many families received the monthly Child Tax Credit advance during the 2021 winter months, but a balance may remain. Families can still claim the Child Tax Credit even if they received the monthly advance payments in 2021. A tax return must be filed to get the unreceived balance.

The maximum amounts of \$3,000 for children ages 6 to 17 and \$3,600 for children 5 years and younger are available to tax filers with an adjusted gross income (AGI) as follows:



- \$75,000 or less for singles
- \$112,500 or less for heads of household and
- \$150,000 or less for married couples filing a joint return and qualified widows and widowers

The credit is reduced by \$50 for every \$1,000 above AGI limits for tax filers who make more than the AGI thresholds. The reduction applies only to the extra amount above the original \$2,000 credit (\$1,000 per child age 6 to 17 or \$1,600 per child age 5 and younger). For example, if a tax filer is single and has a 4-year-old and an adjusted gross income of \$80,000, he or she makes \$5,000 more than the \$75,000 maximum income threshold. The additional \$5,000 income equates to a \$250 (or 5 x \$50) reduction in tax credit. For this filer, the maximum Child Tax Credit will be \$3,350 (or \$3,600 – \$250) instead of \$3,600.

Even if a filer owes no federal income taxes, they can still get the Child Tax Credit for 2021 because the credit is fully refundable for those living in the United States. To qualify, the family must live in the United States for at

least half of 2021. Military people stationed abroad still qualify for the full credit.

If you received a Child Tax Credit advance in 2021 but did not qualify for the credit based on your income, you may have to repay all or part of the money received. Repayment can be as high as \$2,000 per child. Most low-income households will not have to repay. Tax filers will not have to repay if adjusted gross income is in these categories:

- Married filing jointly and qualified widows and widowers: \$60,000
- Head of household: \$50,000
- Everyone else: \$40,000

However, full or partial repayment is required if adjusted gross income is the following:

- Married filing jointly and qualified widows and widowers: \$120,000
- Head of household: \$100,000
- Everyone else: \$80,000

IRS Form Schedule 8812, Credits for Qualifying Children and Other Dependents, is used to determine if repayment is required and the amount of required repayment ([www.irs.gov/forms-pubs/about-schedule-8812-form-1040](http://www.irs.gov/forms-pubs/about-schedule-8812-form-1040)). Check out this article's suggestions for tax preparation assistance in Alabama.

Do you make \$54,000 or less annually, have a disability, are elderly, or speak limited English? If so, you may qualify for free tax preparation on federal and state returns through the Volunteer Income Tax Assistance (VITA) program. The service is confidential, credible, reliable, and secure. Be sure to bring your tax records and documents.

## Earned Income Tax Credit

For the first time, younger and senior workers are eligible for the Earned Income Tax Credit under the American Rescue Plan of 2021. The maximum credit also increased to \$1,502 and is available to filers age 19 or older with a 2021 adjusted gross income of less than \$27,380. Homeless youth and former foster youth age 18 or older also qualify for the Earned Income Tax Credit.

Changes in eligibility for the Earned Income Tax Credit:

- Students under age 24 are not eligible.

- Singles and couples with a social security number are eligible, even if their child doesn't have a social security number.
- Filers with investment income up to \$10,000 are eligible.
- Married spouses who are separated can choose to be treated as not married to be eligible.

IRS Publication 596, Earned Income Credit, provides details about credit rules, eligibility, and filing ([www.irs.gov/forms-pubs/about-publication-596](http://www.irs.gov/forms-pubs/about-publication-596)). Check out this article's free tax preparation suggestions for assistance in Alabama.

## Child and Dependent Care Expenses

For 2021, the American Rescue Plan increased eligible child and dependent care expenses from 35 percent to 50 percent. The percentage increase comes as good news for parents and caretakers with higher than average daycare or adult care costs because of the COVID-19 pandemic. The more the tax filer earns, the lower the credit percentage they can claim. The lower credit percentage will affect only filers with adjusted gross incomes of more than \$125,000. The credit reduces as income rises for those who earn more than \$125,000. Filers who make more than \$183,000 are eligible for 20 percent instead of 50 percent expense credit.

The child and dependent care credit increase is fully refundable. For 2021, even if a filer owes no federal income taxes, he or she can claim the expenses.

IRS Form 2441, Child and Dependent Care Expenses, is used to determine eligible child and dependent care expenses ([www.irs.gov/forms-pubs/about-form-2441](http://www.irs.gov/forms-pubs/about-form-2441)). IRS Publication 503 offers additional details and free tax preparation suggestions for Alabamians.

## Free Tax Preparation Help

Many organizations partner with the IRS to offer free tax preparation assistance through the Volunteer Income Tax Assistance (VITA) program and the Tax Counseling for the Elderly (TCE) program. While TCE provides free tax help to people age 60 and older, and VITA offers tax help to individuals who make \$54,000 or less, have a disability, have limited English language proficiency, or are senior citizens. Both programs use trained volunteers to assist people with tax preparation. For a complete list of programs offering VITA and TCE in your area, see <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers>.

The IRS also offers free in-person tax assistance with an IRS representative and employee. This service is available on the second Saturday of every month through May 2022. For locations in Alabama, go to [www.irs.gov/saturdayhours](http://www.irs.gov/saturdayhours) or scan the IRS code:



Some agencies also offer other tax resources, free or low-cost options for individuals who may not qualify for VITA or TCE). Affordable tax preparation services and resources in Alabama include the following:

- United Way  
(1-888) 421-1266 or dial 2-1-1  
[www.myfreetaxes.com/](http://www.myfreetaxes.com/)
- AARP Foundation Tax-Aide Online Tax Assistance  
<https://taxaideqa.aarp.org/hc/en-us>
- Impact America  
601 Beacon Parkway W, Suite 102  
Birmingham, AL 35209  
(205) 202-4780  
[www.impactamerica.com/freetaxprep/](http://www.impactamerica.com/freetaxprep/)
- Alabama Asset Building Coalition  
[www.alabamaabc.org/irs-vita-grant-program/](http://www.alabamaabc.org/irs-vita-grant-program/)
- Turbo Tax  
<https://turbotax.intuit.com/personal-taxes/online/free-edition.jsp>
- H&R Block  
[www.hrblock.com/online-tax-filing/free-online-tax-filing/](http://www.hrblock.com/online-tax-filing/free-online-tax-filing/)
- TaxAct  
<https://www.taxact.com/ffa/free-file>
- TaxSlayer  
<https://www.taxslayer.com/products/taxslayer-free-tax-filing>

## More Resources

- IRS Publication 596, Earned Income Credit  
[www.irs.gov/forms-pubs/about-publication-596](http://www.irs.gov/forms-pubs/about-publication-596)
- IRS Form Schedule 8812, Credits for Qualifying Children and Other Dependents  
[www.irs.gov/forms-pubs/about-schedule-8812-form-1040](http://www.irs.gov/forms-pubs/about-schedule-8812-form-1040)
- IRS Form 2441, Child and Dependent Care Expenses  
[www.irs.gov/forms-pubs/about-form-2441](http://www.irs.gov/forms-pubs/about-form-2441)
- IRS Free Tax Return Preparation for Qualifying Taxpayers Volunteer Income Tax Assistance (VITA) & Tax Counseling for the Elderly (TCE)  
[www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers](http://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers)
- IRS Second Saturdays Tax Services  
[www.irs.gov/saturdayhours](http://www.irs.gov/saturdayhours)

## References

- Internal Revenue Service. February 8, 2022. Tax Time Guide: American Rescue Plan changes can boost refunds for many families; people should file even if they haven't for years. IR-2022-29. <https://www.irs.gov/newsroom/tax-time-guide-american-rescue-plan-changes-can-boost-refunds-for-many-families-people-should-file-even-if-they-havent-for-years>



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