



## GENERAL FEDERATION *of* WOMEN'S CLUBS

### Legislative Corner: Tax Credits for Working Families

This article is not meant to offer tax advice but to inform members of action taken by Congress to provide funds for child care expenses, enabling parents to return to the workforce. If this information applies to your family, a tax professional should be consulted regarding any income tax planning or return preparation.

A survey by the Federal Reserve found that more than one in five parents were out of work or worked less in 2020 due to lack of child care or school disruptions, and these barriers have impacted parents wanting to return to the workforce. Women were hit particularly hard by COVID-19. More than half of the lost jobs were held by women, and more women remain out of the workforce to care for their families.

Monday, June 21, was Child Tax Credit Awareness Day to launch efforts to educate parents about the historic expansion of Child Tax Credits and Child and Dependent Care Tax Credits as part of the American Rescue Plan. This is good news for women, children, and families.

#### Child Tax Credits

Credit amounts go up from \$2,000 per qualifying child in 2020 to \$3,000 per qualifying child age 6 to 17 and \$3,600 for those under the age of 6.

Credits in 2021 are fully refundable, whereas they were only partially refundable in 2020, meaning they will be paid in full even if no income taxes are owed.

Aimed at working families, the new credit begins to phase out at an adjusted gross income level of \$150,000 for married, filing jointly and ends at an income level of \$170,000. Those making more than \$170,000 can qualify for the regular child tax credit (using 2020 rules) when filing taxes.

Another change from 2020 is that half a person's estimated credit will be paid in equal monthly installments beginning July 15, 2021. This happens automatically if they filed a 2019 or 2020 tax return and claimed the Child Tax Credit or provided the IRS with information in 2020 to receive the Economic Impact Payment using the "Non-Filers: Enter Information Here" tool, so long as they meet the U.S. residency and income requirements and have qualifying children. Monthly payments will be \$300 per qualifying child under 6 and \$250 per qualifying child 6 to 17.

Those not filing 2019 or 2020 tax returns or providing the 2020 non-filer information can still receive advanced monthly payments by visiting the [IRS website](#) and using the "Child Tax Credit Non-Filer Sign-Up Tool."

### **Child and Dependent Care Tax Credits**

The credits are now fully refundable, whereas it was non-refundable in the past.

The potential credit for 2021 has been raised from 35% to 50% for qualified expenses.

The expense limit has been raised from \$3,000 to \$8,000 for one child and from \$6,000 to \$16,000 for two or more children.

Reduction of the credit now begins at \$125,000 adjusted gross income compared to only \$15,000 previously.

Economists project that the new rules will reduce by 45% the number of American children living in poverty.

Rules relating to both of these programs will only be in effect for the 2021 tax year unless Congress votes to extend them. Otherwise, calculations will revert to the 2020 methodology in 2022.

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