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Child Tax Credit Payments: Plan Ahead Now

For over 36 million households with dependents age 17 and under, bank accounts will see some extra green starting in just a few weeks. The American Rescue Plan increased child tax credits from \$2000 per child to up to \$3600 for the tax year 2021. The IRS will be paying half of those credits in advance starting July 15th and payments will be automatic if you have filed a 2019 or 2020 tax return.

Monthly payments July – December will be \$250 per child aged 6-17 and \$300 per child under age 5. There are income guidelines as well with caps of \$75,000 for a single filer; \$112,500 for head of household and \$150,000 for a family. Keep in mind that these are an advance on your child tax credit for 2021.

I'll share with you an example of how these credits may impact your 2021 tax return. I have one 14-year-old child for whom I claimed a \$2000 credit in 2020, which lowered my tax owed by that amount when I filed my return. In 2021, the credit will be \$3000 for the same child, but half of it will be paid to me in advance. When I file my taxes next spring, there will only be \$1500 left of the child tax credit to lower the tax bill. Everything else equal, I will owe \$500 more in taxes in 2021 than I did in 2020 due to the advance payments.

With the advance payments starting soon, it is important to plan ahead for your 2021 tax return. If you usually owe money when you file, you might want to use the IRS online tool to opt out of the advance payments and claim the full Child Tax Credit at tax time. If you don't choose to opt out, it's important to use this monthly pre-payment in a smart manner. First, meet any urgent needs you have such as buying groceries or paying utility bills. Next, use the extra cash to pay down debt or choose to put the money back as an emergency savings fund. In our household, we try to save back our tax refund for emergency cash to have throughout the year. I'm not planning to opt out of the advance payments, however I do have a plan in place to save that money back just as I would if it were a tax return.

If you have questions on how to proceed with the advance payments, consult with your accountant or tax professional. Also, the IRS is warning consumers to watch for scams regarding the advance payments which may be in the form of email, phone calls or texts. The IRS never sends out unsolicited communications asking anyone to open attachments or visit a non-governmental website.

For more information, please contact Julie Smith, Family Resource Management and Entrepreneurship Agent, juliesmith@ksu.edu or by calling 620-238-0704.

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