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RAiSiNG NEW YORK

Supporting Children and Families in Accessing Federal Tax Benefits in the Recent American Rescue Plan

The American Rescue Plan Act ("ARPA") includes important changes to tax credits that support families with infants and toddlers. The ARPA's expansions of the Child Tax Credit and Child & Dependent Care Tax Credit (CDCTC) have the potential to significantly reduce child poverty, and provide critical support to New York families when they need it most.

Chief among ARPA's enhancements to both the Child Tax Credit and the CDCTC is the decision to make them both "fully refundable," meaning that even families earning too little to owe taxes can receive the full credit, and, in the case of the Child Tax Credit, ARPA reduces the minimum income requirement, making the full credit available even to the lowest income families. These reforms will make both credits available to many low-income families for the first time, at significantly higher amounts.

These enhanced tax credits stand to serve as a lifeline to the many New York families struggling to recover from pandemic-related job loss and other economic setbacks. Our **March 2021 poll** of parents of infants and toddlers in New York State found that 71 percent of parents from low-income households, 63% of Black parents, and 51% of Latinx parents feel uneasy about their financial situation. These tax credits will be critical for New York families with infants and toddlers to begin to recover from the impact of the coronavirus pandemic.

We must now ensure all New York families — including those not accustomed to filing taxes because they do not owe taxes — file the appropriate tax documents by the May 17th federal and state tax filing deadline, if possible — even if they do not owe federal income tax. Families should be supported to file even if they are unable to do so before the May 17th filing deadline.

In a typical year, 12 million U.S. families do not file taxes, often because they do not earn enough income to be required to file.[1] It is absolutely critical for the well-being of these children and families, and their communities, that we work together to ensure they are all able to gain access to these tax credits and stimulus checks. Employers and direct service organizations can be important resources to families who qualify for the tax credit expansions in ARPA.

Here's what you should know, and can share with your employees, partners, and community groups:

THE CHILD TAX CREDIT

The federal Child Tax Credit is now fully refundable, the maximum amount increased from $2,000 to $3,600 for children under age 6, and $3,000 for children ages 6-17. Eligible families will receive monthly payment advances in the amount of their credit between July 1 and December 31, 2021. *This means that families will not have to wait until next year's tax filing deadline to receive half of their Child Tax Credit. The other half will be paid out when families file their 2021 tax return in the spring of 2022.*

- **Who qualifies:** Single heads of household up to an adjusted gross income ("AGI") of $112,500; joint filers up to $150,000 AGI qualify for the full, enhanced benefit. Single heads of household with an AGI between $112,500 and $200,000 are eligible for the original $2,000 per child tax credit, as are joint filers with an AGI between $150,000 and $400,000. The credit phases out for families with incomes over those thresholds. This enhanced credit is available only for tax year 2021, but monthly advance payments will begin in July 2021. Children must have a Social Security Number in order to qualify for this credit.
- While the details of how families file for and receive these monthly payments still need to be determined by the IRS, most experts agree that the best way to ensure a family receives these monthly credit payments in a timely manner is to file 2020 taxes, and arrange for direct deposit into a bank.
- Families in which parents file with Individual Taxpayer Identification Numbers (ITIN) and children have Social Security Numbers are eligible for this Child Tax Credit expansion.

THE CHILD & DEPENDENT CARE TAX CREDIT

ARPA increased both the maximum amount of tax credit a family can receive to defray caregiving costs, and the percentage of caregiving costs that are creditable. Because the CDCTC will be fully refundable, families who do not owe taxes, or who owe less than the amount creditable, can still receive the full credit amount.

- **Who qualifies:** Families earning less than $125,000 are eligible for a fully refundable 50% tax credit of up to $4000 for qualifying caregiving expenses for one child under 13 or for an elderly or disabled adult, and $8000 for two or more children, elderly or disabled adults. Families earning more than $125,000 are eligible for a partial credit that phases down as income increases. This enhanced credit is available only for tax year 2021, so families will not receive their CDCTC credits until they file their taxes in 2022.

[1] https://www.ntanet.org/wp-content/uploads/proceedings/2014/029-cilke-case-missing-strangers-know-don.pdf

OTHER TAX CREDITS AND STIMULUS CHECKS

- Families who did not receive one or both of the 2020 stimulus checks, or who received less than the full amount, may be eligible to receive a **Recovery Rebate Credit** if, for example, their income dropped in 2020 as compared to their reported income in their 2019 tax returns that was used to tabulate eligibility for the stimulus checks.
- The federal Earned Income Tax Credit (EITC) has been expanded under ARPA to provide a more robust credit to low-income working adults without children, and to reach, for the first time, young childless adults between the ages of 19 and 25, as well as adults over the age of 65.
- Many low-income working families with children will also be eligible for the federal EITC. This group's tax credit was not enhanced by ARPA, but can be a robust credit, and is another reason low-income families should file taxes this year.