

IRM PROCEDURAL UPDATE

DATE: 08/16/2021

NUMBER: wi-21-0821-1042

SUBJECT: Advance Child Tax Credit (CTC)

AFFECTED IRM(S)/SUBSECTION(S): 21.6.3.4.2.8

CHANGE(S):

IRM 21.6.3.4.2.8 - Clarified alternate income rule to show if claiming EITC, they may use prior earned income, but are not required.

1. Certain individuals who get less than the full amount of the nonrefundable child tax credit are entitled to this refundable credit. The additional child tax credit may result in a refund even if no tax is owed. **See IRM 21.6.3.4.1.24, *Child Tax Credit***, for rules and regulations pertaining to the child tax credit prior to addressing Additional Child Tax Credit.
2. Taxpayers must claim the qualifying child as a dependent to be a qualifying child for the Child Tax Credit.
3. Earned income generally does **not** include workfare payments to the extent subsidized under a state program for work experience (including work associated with the refurbishing of publicly assisted housing if sufficient private sector employment is not available), work in community service programs, or certain Medicaid waiver payments (see IRM 21.6.6.4.37, *Qualified Medicaid Waiver Payments/Difficulty of Care Payments*, for more information). However, the taxpayer may include certain Medicaid waiver payments received as wages or self-employment income in earned income if they benefit from the inclusion (even if this payment is excluded on Schedule 1).
4. For tax year 2015 and subsequent, filers of Form 2555 or Form 2555-EZ cannot claim the credit.
5. For taxpayers indicating a religious (e.g., Amish/Mennonite) or conscience-based objection to obtaining a TIN, refer to IRM 21.6.1.6.1, *Determining the Exemption/Dependent Deduction*.
6. A bona fide resident of Puerto Rico must have 3 or more children to qualify for the Additional Child Tax Credit if the taxpayer is excluding all of their income under IRC 933.
 - Bona fide residents of Puerto Rico do not have taxable income if it is excluded under IRC 933, which applies to income derived from sources within Puerto Rico.
 - Amounts received for services performed as an employee of the United States or any agency thereof is not subject to exclusion under IRC 933.

- If a taxpayer has U.S. Government wages, they must file Form 1040 or Form 1040A and use Schedule 8812 to claim the additional child tax credit. If the taxpayer has excluded income under IRC 933, they must use the worksheet in Publication 972, *Child Tax Credit and Credit for Other Dependents*, to compute the child tax credit. Depending on the circumstances, the taxpayer may be entitled to claim the child tax credit, as well as the additional child tax credit, even if they have fewer than three qualifying children.
- See IRM 3.38.147.9.3, *Additional Child Tax Credit (ACTC)(Refundable)*, for additional information. If the taxpayer calls regarding additional child tax credit on a Form 1040PR, prepare a Form 4442, if applicable.

NOTE: Bona fide residents of the other U.S. territories (American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands) who are eligible for the CTC or ACTC would claim those credits on an income tax return filed with the U.S. territory, not with the IRS.

7. A special rule applies for certain taxpayers affected by disaster areas shown below. Qualified individuals whose earned income in the applicable taxable year is less than the earned income in the preceding taxable year may elect to use their earned income of the preceding taxable year when figuring ACTC. Taxpayers who do not claim EITC should enter "PYEI" and the dollar amount of the prior year earned income on the dotted line for ACTC. Taxpayers who also claim EITC must follow the election they made when they figured EITC.

The main home of qualified individuals must have been in:

- the Hurricane Harvey disaster area on August 23, 2017
- the Hurricane Irma disaster area on September 4, 2017
- the Hurricane Maria disaster area on September 16, 2017
- the California wildfire disaster area on October 8, 2017
- any Presidentially declared disaster that occurred in 2018 or 2019, but before December 21, 2019

NOTE: Verify the taxpayer was in the qualified disaster area via the IRS Disaster Assistance Program .

These claims are centralized in Austin and Philadelphia (International). Reassign the case per the AM Site Specialization Temporary Holding Numbers. Use category code KATX and OFP 710-82365 when processing these claims.

8. As part of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, individuals whose earned income for tax year 2020 is less than the earned income for 2019 may elect to use their 2019 earned income when figuring ACTC. Taxpayers should enter "PYEI" and the dollar amount of the prior year earned income on the dotted line for ACTC. Taxpayers who elect to use PYEI

in figuring their 2020 ACTC, and who also claim EITC, may also elect to use PYEI when figuring their 2020 EITC, but they are not required to do so.