



Tax

Forum

IRS Nationwide

2022

Child Tax Credit Issues:
Things Learned During the 2022 Filing Season
Tuesday, July 26th, 2022

Start Time: 2:00pm Eastern / 1:00pm Central
12:00 Noon Mountain / 11:00am Pacific

Note: You should be hearing music while waiting for webinar to start.

Having Technical Issues?

View the “Technical Issues” troubleshooting guide in the Materials drop-down menu on the left side of this page

Course Description

- This course discusses the experiences realized after applying the provisions that were changed, created and for the moment, *temporary* because of the **American Rescue Plan Act of 2021 (ARPA of 2021)**.
- The course will review the updated **Form 8812** and issues encountered during the **2022** filing season.
- The course will also discuss federal tax policy issues experienced by both the tax professional community and the Internal Revenue Service.

Learning Objectives

- At the completion of the course, participants will understand the impact of the changes made by the **ARPA of 2021** and the need to provide more tax planning opportunities for individual taxpayers as the law reverts to the provisions under the **Tax Cuts and Jobs Act (TCJA)**.



Legislative History of §24 CTC

- **1997 Legislation** created a **\$500** credit amount effective **January 1, 1998**
- Provided a *limitation* of the credit based on an AGI phase-out range and filing status
- Provided a *limitation* for a “qualifying child” *under* the age of **17**
- **2004 Legislation** *temporarily* increased the credit amount to **\$1,000** with changes in the amount for years between **2005-2010**





Legislative History of §24 CTC

- **2005-2008** *decreased* the credit to **\$700**
- **2009** *increased* the credit to **\$800**
- **2010** *increased* the credit to **\$1,000** and scheduled to expire
- **2010 Legislation** *extended* the **\$1,000** to **2014**





Legislative History of §24 CTC

- **2012 Legislation** *extended* the **\$1,000** to **2017**
- **2015 PATH Act** made the **\$1,000** credit amount “permanent”
- With all of these legislative changes, the modified AGI phase-out threshold amounts of **\$75,000** and **\$110,000** for married joint (**\$55,000 separate**) remained unchanged



Legislative History of §24 CTC

- 2017 TCJA *temporarily* increases credit to **\$2,000** for **2018-2025**
- 2017 TCJA *temporarily* increases modified AGI Phase-out amounts to **\$200,000** and **\$400,000** for married joint
- Under current law, the amount of the credit **reverts** to the **2015 PATH Act beginning January 1, 2026**, to **\$1,000**, and
- Phase-out threshold amounts of **\$75,000** and **\$110,000** for married joint (**\$55,000** separate) will return

American Rescue Plan Act of 2021

- §24 CTC *increased* from **\$2,000** to **\$3,000** for **2021 only**
- For **2021 only**, the age eligibility provision for a “qualifying child” increased to a child who is *under* **age 18** *instead of under age 17*
- For **2021 only**, law provides an increased credit to **\$3,600** for a “qualifying child” *under* **age 6**
- Special Phase-out threshold amounts and ranges of the *increased* amounts of **\$1,000** and **\$1,600** based on filing status
- Basic **\$2,000** credit remained at the normal phase-out amounts of **TCJA**

Phase-out Ranges of Increased §24 CTC

- Phase-out of the *“increased”* §24 CTC based on filing status and *reduced by \$50 for each \$1,000* (or fraction there of) *above* a specified modified AGI as follows:
 - ✓ Single Taxpayers **\$75,000**
 - ✓ Head of Household **\$112,500**
 - ✓ Joint & Surviving Spouse **\$150,000**



Phase-out of the Increased \$1000 for One Qualifying Child

Filing Status	Begins	Ends	Phase-out Range
Single	>\$75,000	\$94,001	\$19,001
Head of Household	>\$112,500	\$131,501	\$19,001
Married Joint and Surviving Spouse	>\$150,000	\$169,001	\$19,001



Phase-out of the Increased \$1,600 for One Qualifying Child

Filing Status	Begins	Ends	Phase-out Range
Single	>\$75,000	\$106,001	\$31,001
Head of Household	>\$112,500	\$143,501	\$31,001
Married Joint and Surviving Spouse	>\$150,000	\$181,001	\$31,001

Example of Phase-out of the Increased §24 CTC

- Mary has a filing status of “head-of-household” with one “qualifying child” **age 6** and modified AGI of **\$132,000**.
- Mary does not receive any of the *increased* **\$1,000** because the phase-out rate of **\$50** for *each* **\$1,000** (or fraction thereof) *above* **\$112,500** is **19.5** (rounded up to **20**).
- As a result, **20** times **\$50** *reduces* the full *increased* credit amount of **\$1,000** to **zero**.
- Mary’s basic **\$2,000** credit will not begin to be subject to a phased-out *until* AGI *exceeds* **\$200,000**.



Fully Refundable Credit

- **Refundable** credit for all taxpayers *if* principal place of abode in U.S. (50 States and D.C.) for *more than 1/2* of tax year or a bona fide resident of Puerto Rico for the tax year
- Determined *without* regard to *either*:
 - “**earned income formula**”, *or*
 - “**alternative formula**”





Earned Income Formula

- **Form 8812** calculates the *refundable portion* of the basic **§24 CTC** allowing taxpayers with a lower income amount to essentially get back more of their payroll tax payments
- **“Earned income”** *in excess of \$2,500 multiplied by 15%* allows a maximum **\$1,400** refundable credit (**TCJA**)



Alternative Formula

- Taxpayers with **3 or more** “qualifying children” qualify for a maximum refundable §24 CTC
- Mary has 3 “qualifying children” *under* **age 6**. She is eligible for **\$10,800** of §24 CTC for **2021**
(**3 x \$3,600**).



Nonrefundable Credit Available

- “Earned income” *greater than* **\$2,500** *without* an abode in U.S. for *greater than* **half** the year and an income tax liability, would have a **nonrefundable** credit to the extent of the liability



Abode **Not** in the United States

- Jack and Jill live in a mountain top outside of the U.S. with their **2** “qualifying children” *under age 6*.
- Their only source of income is **\$150,000** of long-term capital gain and qualified dividends.
- After the standard deduction of **\$25,100**, taxable income is **\$124,900** which is taxed at preferential rates and results in a tax liability of **\$6,615**.
- They are not eligible for the “**refundable \$7,200**” §24 CTC but they are eligible for a “**nonrefundable \$6,615**” §24 CTC. As a result, their net tax liability is **zero**.
- Since their **AGI** is at **\$150,000** or **below**, they are not subject to the phase-out of the credit. The excess \$585 (\$7,200 less \$6,615) is not available to them.

Example: Abode Outside the U.S.

- Jack and Jill live in a mountain top outside of the U.S. with their **2** “qualifying children” *under age 6*.
- Their only source of income is **\$50,000** of earned income.
- After the standard deduction of **\$25,100**, their taxable income is **\$24,900** which is taxed at ordinary rates and results in a tax liability of **\$2,593**.
- They are not eligible for the full “**refundable \$7,200**” §24 CTC **but** they are eligible for a “**nonrefundable \$2,593**” §24 CTC. As a result, their net tax liability is **zero**.
- They are also eligible for the *limited* **\$1,400** additional CTC for each child because they have “earned income” *greater than \$2,500*.
- They also qualify for **\$809** of **§32 EITC**.

Advanced Payments of CTC

- **§7527A**: Temporary advanced payments of **§24 CTC** *beginning July 15, 2021*, based on a “reference year” defined as the previous calendar year (**2020**)
- If taxpayer did not file a tax return for **2020** then the advanced payments were based on the **2019** filed return
- **50%** of IRS’s *estimate* of the *eligible* taxpayer’s **2021** CTC
- Creation of the online portal to make changes concerning advanced credits

Advanced Payments of CTC

- Required **reconciliation** of “advanced” payments *in excess of* the “allowable” amount on **Form 8812**
- *Advanced* CTC payments *in excess of* the *allowable* CTC must *generally* be *repaid* by increasing the taxpayer’s tax liability on the **2021** Form 1040

Safe-harbor on Repayment of Advance

- **§24(i)** provides a “safe-harbor” *if* the taxpayer’s *modified AGI* is *below* an “applicable income threshold amount” based on filing status
- **§24(j)(2)(B)(iv)** provides that the “safe-harbor amount” means the *product of*: **\$2,000** *multiplied by* the *excess of* the number of children **determined by the IRS** for the advance (as reported on the **6419** letter) *over* the number of qualified children reported on **Form 8812**
- **FAQs** refer to the “safe-harbor” as “**repayment protection**”



Applicable Income Threshold Amounts

- “Applicable income threshold amounts” based on filing status:
 - Joint & Surviving Spouse **\$60,000**
 - Head of Household **\$50,000**
 - All Other Taxpayers **\$40,000**



Phase-out Ranges of Safe-harbor Amounts

- Phase out ranges of “safe-harbor” based on filing status:
 - Joint and Surviving Spouse **\$60,000-\$120,000** = \$60,000
 - Head of Household **\$50,000-\$100,000** = \$50,000
 - All Other Taxpayers **\$40,000-\$80,000** = \$40,000
- Therefore, at the upper limits, the “safe harbor” amount is reduced to **zero** and taxpayers with income *greater than* the **upper limit** required to **repay 100%** of the *excess* advanced payment

Example: “Repayment Protection”

- Taxpayer filed a joint return for tax year **2020** and claimed the **\$24** Child Tax Credit for **3 qualifying children**.
- IRS *estimated* the total advance Child Tax Credit payment amount based on **3 qualifying children**.
- Taxpayer filed the **2021** joint tax return with a **modified AGI** of **\$75,000**.
- Taxpayer *properly claimed* the **\$24 CTC** for *only one qualifying child*, resulting in an *excess* of two qualifying children.
- Taxpayer’s **modified AGI** of **\$75,000 exceeds** the **applicable \$60,000 safe-harbor amount** by **\$15,000** which is **25%**. ($\$15,000/\$60,000$)
- The potential full “**repayment protection**” amount of **\$4,000** (**\$2,000** for each excess qualifying child) is *reduced by 25%*. As a result, the taxpayer has “**repayment protection**” of **\$3,000**. The taxpayer only needs to repay **\$1,000** of the excess advance.

Repayment Protection Phase-out

Filing Status:	Qualify for full repayment protection if 2021 modified AGI is at or below :	Qualify for some repayment protection if 2021 modified AGI is between :	Qualify for no repayment protection if 2021 modified AGI is at or above :
Married Joint or Qualifying Widow(er)	\$60,000	\$60,001-\$119,999	\$120,000
Head of Household	\$50,000	\$50,001-\$99,999	\$100,000
Single or Married Separate	\$40,000	\$40,001-\$79,999	\$80,000

Reconciling Error on e-filed Return

FAQ: F2 (April 27, 2022) Will the return be **rejected** if an error is made on the reconciliation?

- **No**, the IRS will **not** reject the return if you made an error in reconciling the **2021** advance Child Tax Credit payments.
- **Do not** file an amended tax return with the IRS. **If** there is a mistake in determining the amount of **2021** Child Tax Credit for which the taxpayer is eligible, **then** the IRS will:
 1. calculate the correct amount of the Child Tax Credit,
 2. make the correction to the tax return, and
 3. continue processing the return.
- **If** a correction is needed, **then** the correction will increase the time it takes to process the return.
- The IRS will send a **notice** explaining any change made.

CP Notice: IRS Changed 2021 CTC

- FAQ: F3 (April 27, 2022)
- **If** taxpayer *agrees* with the changes made, **then** no response or action is required.
- The **Notice** is informing the taxpayer that the IRS already adjusted the Child Tax Credit claimed on the return.
- **If** taxpayer *disagrees* with the changes made, **then** you can call the toll-free number listed on the top right corner of the **Notice**. Have a copy of the Social Security card(s) and Individual Tax Identification Number(s) (ITINs) associated with the tax return available when you call.

FAQ L2: Updated May 20, 2022

- **Q L2:** My child's other parent and I have agreed that, for federal income tax purposes, I'll claim our child for each **even**-numbered year while the other parent will claim our child for each **odd**-numbered year.
- I claimed the Child Tax Credit for our child on my **2020** tax return. Why did the IRS disburse the **2021** advance Child Tax Credit payments to me even though I won't be claiming the Child Tax Credit on my **2021** tax return?

FAQ L2: Answer

- **A2.** Because you claimed your child on your **2020** tax return, the IRS *automatically* disbursed advance Child Tax Credit payments to you even though **you knew** you wouldn't be claiming your child on your **2021** tax return.
- When you file your **2021** tax return (the one due in April of 2022), you **“could”** have to pay back the *advance* payments that *exceed* the amount of the Child Tax Credit you're entitled to claim on that return.
- You **“may”** be excused from repaying some or all of the *excess* amount *if* you qualify for **“repayment protection”**.
- For more information about “repayment protection”, see [Topic H: Reconciling Your Advance Child Tax Credit Payments on Your 2021 Tax Return.](#)



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NSTP Contact Information

“\$24 Child Tax Credit Issues: Things Learned During the 2022 Filing Season”



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