

IMPORTANT DIVORCE TAX INFORMATION IN THE AMERICAN RESCUE PLAN ACT

Child Tax Credit

- Increases the child tax credit amount for **2021 only**, to \$3,600 for children under 6, and to \$3,000 for children ages 6-17; expands definition of “qualifying child” to include 17-year-olds.
- IRS will make periodic advance payments of the child tax credit based on 2019 or 2020 tax return information from July 2021 through December 2021. These payments comprise half of the child tax credit for which the taxpayer is otherwise entitled for 2021, with the remaining half claimed on the 2021 tax return.
- Phases out the additional credit amount - \$1,000 per child age 6 or over; \$1,600 per child under age 6 – for joint filers with a modified adjusted gross income above \$150,000 (\$112,500 for head of household filers and \$75,000 for other filers).
- **Makes the child tax credit fully refundable in 2021.**
- No child tax credit against U.S. income taxes is allowed to an individual, if the child tax credit is allowable against taxes imposed on the individual by a U.S. possession with a mirror code tax system.

Earned Income Credit (EITC)

- For 2021, **temporarily modifies the definition of “eligible individual”** (without qualifying children” by decreasing minimum age to 19 (24 for specified students and 18 for homeless/former foster youth) and eliminating maximum age limit. Additionally, for 2021, the credit phaseout percentage increases to 15.3% and the earned income and phaseout amounts increase to \$9,820 and \$11,610, respectively.
- Eligible individuals can claim childless EITC even if they have qualifying children who fail to meet certain identification requirements.
- A **separated spouse** who meets certain requirements is not treated as married, such that he/she may be eligible for the EITC despite not filing jointly. Requirements are that the spouse does not file jointly, lives with the qualifying child for over half the year, and either (1) does not live with the other spouse during the last 6 months of the year or (2) has a separation instrument and does not live with the spouse by the end of the year.
- Increases the disqualified investment income amount to greater than \$10,000.
- If a taxpayer’s 2019 earned income is higher than 2021 earned income, a taxpayer may elect to determine EITC using 2019 earned income instead of 2021 earned income.

Dependent Care Assistance

- The household and dependent care tax credit is made **refundable for 2021**, and the maximum credit amount is increased to \$8,000 if there is 1 qualifying individual with respect to the taxpayer for such taxable year, or \$16,000 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year.
- For 2021, the creditable portion of the employment-related expenses is increased to 50%, reduced (but not below the “phaseout percentage”) by 1 percentage point for each \$2,000 (or fraction thereof) by which the tax payer’s adjusted gross income for the taxable year exceeds \$125,000.
- The “phaseout percentage” is 20% reduced (but not below zero) by 1 percentage point for each \$2,000 (or fraction thereof) by which the taxpayer’s AGI exceeds \$400,000.
- For 2021, no household and dependent care credit against U.S. income taxes is allowed to an individual, if the household and dependent care credit is allowable against taxes imposed on the individual by a U.S. possession with a mirror code tax system.
- For 2021, the amount which may be excluded from an employee’s gross income for dependent care assistance with respect to dependent care services provided during the taxable year is increased to \$10,500 (\$5,250 in the case of a separate return by a married individual).