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How does the new

How does the new stimulus bill affect taxes?

What does the bill change about the child and dependent care tax credit?

This credit, which helps working families offset the cost of care for children under 13 and other dependents, will be significantly expanded for a single year. More people are eligible, and many recipients will get a bigger break.

The bill also makes the credit fully refundable, which means you can collect the money as a refund even if your tax bill is zero.

“That will be helpful to people at the lower end” of the income scale, said Mark Luscombe, principal federal tax analyst at Wolters Kluwer Tax & Accounting.

How much is the credit worth?

For this year only, the stimulus legislation makes the credit worth up to $4,000 for one qualifying individual or $8,000 for two or more. The credit will be calculated by taking up to 50 percent of the value of eligible expenses, up to certain limits, depending on your income. (The more you earn, the lower the percentage you can claim.)

Usually, the credit is generally worth between 20 and 35 percent of eligible expenses with a maximum value of $2,100 for two or more qualifying individuals.

The bill also significantly increases the income level at which the credit begins to be reduced. In past years, that started at an adjusted gross income of $15,000, but for this year the full value of the credit will be available to households making up to $125,000.

Previously, the credit was not further reduced below 20 percent, regardless of income, Mr. Luscombe said. But for this year, the bill will begin to reduce the credit below 20 percent for households with income of more than $400,000.

What about dependent care flexible spending accounts?

The bill makes one big change. For 2021 only, you can set aside $10,500 in a dependent care account instead of the normal $5,000. But employers have to allow the change: You can't adjust the withholdings from your paycheck yourself if your employer declines to provide the option.

How does the bill change the child tax credit?

The credit is more generous for 2021, particularly for low- and middle-income people.

Usually, the credit is worth up to $2,000 per eligible child. This year, it will increase to as much as $3,000 per child ($3,600 for ages 5 and under). The age limit for qualifying children also rises to 17, from 16.

Does it change how the credit works?

Here's where it gets interesting: You could receive some of the credit as an advance on your 2021 taxes. (You can also opt out of advance payments if you wish.)

The bill makes the credit fully refundable, which means you can receive money from it as a tax refund even if your tax bill is reduced to zero. And half of that money can be advanced to households over the next six months (based on their 2020 tax information, or 2019 if that was unavailable). It's not clear how frequently payments would be made — perhaps monthly — but under the bill they should begin in July.

The changes are effective for 2021 only, though at least some Democrats would like to make it permanent.

Who is eligible?

Married couples who have modified adjusted gross income up to $150,000 (or heads of household up to $112,500 and single filers up to $75,000) receive the full value of the new benefit.

But after that, the extra amount above the original $2,000 credit — either $1,000 or $1,600 per child — is reduced by $50 for every $1,000 in modified adjusted gross income that exceeds those levels. (For joint filers with one child age 6 to 17, the extra amount will be phased out at about $170,000.)

At that point, the tax credit levels out at $2,000, and is subject to the usual income limits: It begins to phase out when married filers have adjusted gross income of $400,000 ($200,000 for singles).

How do the advance payments work?

The advance payments would total up to half the value of the credit the household is eligible to receive. (The other half would be claimed on its 2021 return.) But exactly how often the payments would be sent out depends on what the Treasury Department decides is feasible.

Here's how it might work for a couple earning $150,000 or less: With two children, ages 7 and 9, they would be eligible for a $6,000 credit ($3,000 per child). If the payments were made monthly, the family would receive $500 per month starting in July and lasting through the end of the year. The remaining $3,000 would be claimed in 2021 on their tax return.

Could I end up having to pay any of it back?

Conceivably, yes.

A taxpayer may receive too much money from the advance payments in certain situations, such as a change in income or filing status, or if they no longer claim a child as a dependent. (Single parents may run into this situation if the other parent claims the child as a dependent in some tax years.)

This could cause you to owe money at tax time or reduce your refund.

But the bill mitigates the danger in a couple of ways. First, only half of the credit is paid in advance. And the law also says that if the wrong amount was paid because of changes in the number of qualifying children, up to $2,000 per child would not need to be paid back by taxpayers who fall below certain income thresholds: $40,000 for a single taxpayer, $50,000 for a head of household, and $60,000 for joint filers. People whose income is above those thresholds may receive partial protection, which phases out as they earn more, tax experts said.

The bill requires the establishment of an online portal to allow taxpayers to opt out of receiving advance payments and update information about their income, marital status and number of qualifying children.

Will the bill increase the earned-income tax credit?

For 2021 only, the bill will increase for childless households the size of the earned-income tax credit, which helps those at the lower end of the income scale, and make more taxpayers eligible.

The maximum credit amount for childless people increases to $1,502, from $543.

The bill also broadens the age range: People without children will be able to claim the credit beginning at age 19 instead of 25, with the exception of certain full-time students. The upper age limit, 65, will be eliminated.

How would separated spouses be affected?

Married but separated people can be treated as not married for the purpose of the credit if they don’t file a joint tax return.

This applies only if the taxpayer lived with a qualifying child for more than half of the taxable year and didn’t have the same principal home as the spouse at least six months of the year. A separation decree or agreement would also suffice, as long as the individual didn’t live with the spouse by the end of the taxable year.

This change will be permanent.

Are there any other changes?

- For the purposes of calculating the credit in the 2021 tax year, taxpayers could choose to use their 2019 income if it was higher than 2021, according to a Senate aide.
- People who otherwise would be eligible but whose children do not have Social Security numbers will be permitted to claim the version of the credit available to childless households. This change is permanent.
- Taxpayers won’t be disqualified for the credit in 2021 until they have investment income of $10,000, up from $3,650. This change will be permanent, with the $10,000 threshold indexed to inflation.

Read other frequently asked questions about the new stimulus package.

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Source: **New York Times, March 11, 2021.**
