Navigator Resource:
Opt-Out of AdvCTC Payments

This guide will provide information regarding why a client may want to opt-out of advance payments of their 2021 Child Tax Credit.

AdvCTC Basics

The American Rescue Plan increased the 2021 child tax credit (filed in 2022) from $2,000 to $3,600 per qualifying child under age 6 and $3,000 per qualifying child ages 6 to 17. Up to half of that credit can be paid in monthly advance payments from July 2021 through December 2021, referred to as Advance Child Tax Credit (AdvCTC). Receiving the advance payments, will decrease the amount of credit claimed when they file their tax return. For example a single parent with a four-year old child:

- ➔ Opts-out of AdvCTC: Receives $3,600 Child Tax Credit while filing their tax return in 2022
- ➔ Does **not** opt-out: The client receives 6 monthly payments of $300 (6 x $300=$1,800) and claims the remaining credit ($1,800) when they file their tax return in 2022. If the client filed a return after the first payment was issued, payments would adjust accordingly (5X$360).

<u>Reporting Advance Payments</u>: Clients will receive Letter 6419 in January 2022 that details the total amount of AdvCTC payments that were disbursed in 2021. Clients should use the letter when filing their 2021 return to accurately report the amount received against their eligible amount.

<u>Excess AdvCTC payments</u>: Due to changes to a client's household and/or income situation, they may receive more in AdvCTC payments than the 2021 eligible amount. For example, if a client claims a qualifying child on their 2019 or 2020 return and they will not claim them on their 2021 return (filed in 2022), they will receive advance payments that they are no longer eligible to receive. Some clients may need to repay some or all of the excess amount on their 2021 tax return. Many low-and moderate-income clients will qualify for full or partial payment protection. Use the following information so they can make the best decision for themselves.

- Clients with Adjusted Gross Income (AGI) less than the following in 2021 won't need to repay any excess payments:
  - $40,000 filing single or married filing separately
  - $50,000 filing head of household
  - $60,000 filing married filing jointly or qualifying widower
- Clients with AGI between the following in 2021 may be required to repay some of their AdvCTC. Anyone making over this amount will be required to repay the full amount:
  - $40,000-$80,000 filing single or married filing separately
  - $50,000-$100,000 filing head of household
  - $60,000-$120,000 filing married filing jointly or qualifying widower

These are the amounts on IRS.gov however clients making 10% over the limit may still qualify for full protection.

Reasons to Opt-Out

Clients will have the option to opt-out of receiving their AdvCTC. Below are a few reasons why a household may want to do so.

- **Changes to household circumstances**: As described above, some clients may experience changes to their household or income that may reduce their eligible CTC amount for 2021 (filed in 2022). To avoid repayment, those clients may want to opt-out of their advance payments or wait to update their information using the IRS CTC Update portal.
    - Example: Bill and Jess share custody of their 7-year old child. Bill claimed their child in 2020 (filed in 2021) and Jess will claim the child on their 2021 tax return (filed in 2022). Depending on Bill's income, he may have to pay back some or all of the AdvCTC when filing his 2021 return if he does not opt-out of advance payments.
- **Reducing or eliminating taxes owed at tax time**: Clients accustomed to receiving $2,000 per child at tax time may normally choose to not withhold as much from paychecks or skip quarterly self-employment tax payments, knowing that the credit will offset the amount due. Even though the Child Tax Credit increased, the amount claimed at tax time will be less than $2,000. This may result in the client owing more than they are prepared to pay.
    - Example: Theresa is a single parent with two children under the age of 6. She is self-employed and usually has a high self-employment tax of $4,500. The previous CTC worth $2,000/child helped reduce her taxes to $500. If she doesn't opt-out of AdvCTC and receives half of her full CTC payments from July-Dec 2021 ($3,600), she'll only qualify for $3,600 at tax time, leaving her with a tax bill of $900. If she opts out of AdvCTC, she'll claim $7,200 at tax time and get a refund of $2,700.
- **Prefer one large payment:** Some clients prefer receiving one large payment over smaller monthly payments. Large refunds help clients achieve some of their financial goals.
    - Example: Cynthia plans on using her 2021 tax refund to purchase a car. They want to put as much down as possible, to avoid high payments and interest. They prefer to receive the full CTC during tax time, instead of receiving smaller, monthly payments.
- **Change of payment information:** Outdated or incorrect payment information, for example closed bank accounts or old mailing addresses, can significantly delay a refund or payment and can create an unnecessary burden on clients. The IRS CTC Update portal will eventually allow clients to update their payment information. Until then, opting out of payments may be the safest option to ensure a payment is not stolen or lost.
    - Example: Devaughn filed his 2020 tax return in February and requested that his refund be sent to him by check in the mail. He moved in May and is worried about the payments going to the wrong address. He decides to opt-out of payments to and will claim the full CTC amount on his 2021 tax return.

COMING SOON: Next steps to Opt-Out of AdvCTC Payments

The IRS has developed a CTC Update portal to allow clients to opt out of these advance payments. Navigator resources will be created to include steps of accessing the portal and helping a client opt-out of receiving their AdvCTC.