

Information for Families Regarding the American Rescue Plan Act of 2021

For families with young children, the recently enacted American Rescue Plan Act may have a significant financial impact. Of note are the increase in the child tax credit, the child and dependent care credit, and the expansion of the dependent care flexible spending account (aka DCAP). Please be aware that this document is for informational purposes only and should not be taken as legal or financial advice. The intention is to share information that may be beneficial to our families. Please consult your financial planner, tax advisor, the IRS, or state revenue officials to confirm your eligibility.

Child Tax Credit

- The American Rescue Plan Act increases the child tax credit which will benefit 94% of American families who fall within income eligibility for this credit.
- The credit is fully refundable for 2021 and increases the amount to \$3,000 per child (from \$2,000), for children ages 6 to 17. The credit amount increases to \$3,600 for a child under age 6.
- Families will receive monthly payments from the Treasury allowing them to cover costs relating to childcare.
- How it works: If an American household qualifies for the credit based on having children and falling below the income threshold (\$75k for single parent; for head of households, \$112,500; \$150k for two parents), they will receive monthly government checks.

For each child, a qualifying family will receive \$3000/year or \$3600/year for children under 6-years-old.

So, if your family qualifies for \$7200 annually, you may receive a \$600 check each month!

Child and Dependent Care Tax Credit

- ARPA increases the maximum value of the credit and allows more taxpayers to qualify for the full credit (it was previously based on a family's adjusted gross income and many families phased out of it due to income—the maximum credit applied to families who received \$15,000 or less annually).
- The new phase out threshold is increased to \$125,000 (meaning as a family begins receiving over \$125k, the credit begins to diminish). Taxpayers earning over \$500,000 do not receive the credit.
- Previously, the CDCTC granted a credit worth between 20% and 35% of child care costs for a child under age 13 and qualifying child care expenses were limited to \$3,000 for a single child and \$6,000 for two or more children.
- The amount of qualifying child care expenses is now increased to \$8,000 for one child and \$16,000 for two or more children.

- Importantly, for the 2021 tax year, the credit is refundable and families may see refunds in 2022 for child care expenses paid of \$8k or \$16k.
- How it works: In practice, a typical family will file their taxes declaring these qualifying child care expenses and may reduce their federal income tax liability based on child and dependent care expenses.

Expansion of the Dependent Care Flexible Spending Account (aka “DCAP”)

- ARPA provides a temporary increase in the amount an employee may contribute to a dependent care FSA for the 2021 tax year.
- This expansion specifically increases the amount of pre-tax flexible spending available for families from \$5,000 to \$10,500 in 2021.
- How it works: In practice, any individuals enrolled in dependent care FSAs through their employer-sponsored benefits which previously was limited to \$5,000 in pre-tax spending relating to costs associated with child care, babysitting, summer camp, etc. may be eligible for \$10,500 in pre-tax spending on that account.

Families interested in learning more about and/or enrolling in DCAP should work directly with their employer and HR representative.

For more information on the tax credits and DCAP expansion, please refer to the following websites:

- **Child Tax Credit**: <https://www.irs.gov/help/ita/does-my-childdependent-qualify-for-the-child-tax-credit-or-the-credit-for-other-dependents>
- **Child and Dependent Care Tax Credit**: <https://www.irs.gov/taxtopics/tc602>
- **Expansion of the Dependent Care Flexible Spending Account**: <https://www.natlawreview.com/article/arpa-provides-welcome-change-participants-dependent-care-fsas>