



# AFSCME Facts

## Expanded Child Tax Credits and Dependent Care Benefits In the American Rescue Plan March 22, 2021

The American Rescue Plan Act of 2021, which was signed into law by President Biden on March 11, includes a dramatic, one-year expansion of support for children and dependent care, helping cut America's child poverty rate in half. This fact sheet provides an overview of those changes, which affect the Child Tax Credit, the Child and Dependent Care Tax Credit and Dependent Care Assistance Plans.

### **What are the key changes to the Child Tax Credit?**

The American Rescue Plan makes significant changes to the Child Tax Credit, increasing the credit amount and expanding eligibility for it, but only for one year. In 2021, the maximum child **eligibility age is raised by one year to 17**, and **the maximum tax credit is increased from \$2,000 to \$3,600 for each child under 6 and \$3,000 for each child age 6 to 17**. For example, a family eligible for full Child Tax Credits and with one five-year-old and one eight-year-old will receive \$6,600 for 2021. The 2021 credit will be **fully refundable**, meaning families can receive the money even if they pay less than this amount in taxes. Usually, it is only partially refundable. For the first time, **families in Puerto Rico and the territories also will be eligible for this credit**.

### **Are there income limits on who gets the Child Tax Credit?**

Yes. The increases in the maximum credit above the usual \$2,000 per child begin to phase out for married couples with over \$150,000 in modified adjusted gross income, heads of households making more than \$112,500 and single filers making over \$75,000. The usual phase-out thresholds for the first \$2,000 remain the same (i.e., more than \$400,000 for married joint filers and more than \$200,000 for all others).

### **Do families have to wait until filing their 2021 taxes to get the Child Tax Credit?**

**No. Half of this credit is expected to be sent out by the federal government as monthly payments from July to December of this year**, with estimated credit amounts based on a taxpayer's most recent tax filing. The rest will come as a credit or refund on next year's taxes. The IRS will be setting up an online portal for taxpayers to update relevant information for mid-year payment adjustments, such as for the birth of a child during 2021.

### **What are the changes to the Child and Dependent Care Tax Credit?**

The American Rescue Plan makes significant changes to the Child and Dependent Care Tax Credit, which offsets the cost of care for children under 13 and certain other dependents (e.g., spouses

unable to care for themselves), but only for one year. The 2021 credit is **increased to a maximum of \$4,000 for families with one child and \$8,000 for those with two or more children**. It reimburses families for **up to 50% of the cost of child care expenses**. This is a significant increase from the usual credit, which reimburses only as much as 35% of expenses up to a maximum value of \$1,050 for one child and \$2,100 for two or more children. The credit is also **fully refundable** in 2021, and eligibility is expanded to **families in Puerto Rico and the territories**.

### **What are the changes to Dependent Care Assistance Plans (DCAPs)?**

The American Rescue Plan **increases the maximum DCAP contribution to \$10,500 in 2021**. The usual contribution limit is \$5,000. **In order for workers to take advantage of this one-year change, their employers must first amend their DCAPs to allow for it.**

Contributions to these employer-established accounts, which are also known as Dependent Care Flexible Spending Accounts, are excluded from taxation, including under FICA. Distributions from DCAPs generally are used to reimburse the cost of care for qualifying children and other qualifying dependents.

Congress made other temporary changes to the DCAP rules in prior legislation, including a relaxation of the carryover rules to allow all unused funds at the end of a year to be carried over for use in the following year. More information about those changes can be found in AFSCME's fact sheet on [COVID Related Relief for DCAPs and Health FSAs](#).