

PERSONAL TAX CREDITS

¶280 Child Tax Credit

NEW LAW EXPLAINED

Modification of child tax credit and new credit for qualifying dependents after 2017.—The child tax credit is temporarily expanded effective for tax years beginning after 2017 (Code Sec. 24(h)(1), as added by the Tax Cuts and Jobs Act). Specifically, the following modifications to the credit are effective for tax years beginning after December 31, 2017, and before January 1, 2026:

- The credit amount is increased to \$2,000 per qualifying child (Code Sec. 24(h)(2), as added by the Tax Cuts and Jobs Act).
- The threshold amount when the credit begins to phase out is increased to \$400,000 if married filing jointly and \$200,000 for any other filing status (Code Sec. 24(h)(3), as added by the Tax Cuts and Jobs Act). The credit is reduced by \$50 for \$1,000 (or fraction thereof) that a taxpayer's modified adjusted gross income (MAGI) exceeds the threshold amount. The threshold amounts are not indexed for inflation.
- A taxpayer may claim a \$500 credit for each dependent who is not a qualifying child for purposes of the child tax credit (Code Sec. 24(h)(4), as added by the Tax Cuts and Jobs Act). A dependent for this purpose is a qualifying relative (and not a qualifying child) for purposes of claiming a dependency exemption under Code Sec. 152(b). In addition, the dependent must be a U.S. citizen, national, or resident of the United States. The \$500 dollar credit may not be claimed for a dependent who is resident of contiguous country to the United States (i.e., Mexico and Canada).

COMPLIANCE NOTE

A taxpayer must file either Form 1040 or Form 1040A to claim the child tax credit. The child tax credit cannot be claimed by a taxpayer filing Form 1040-EZ.

Refundable child tax credit. A portion of the child tax credit remains refundable after 2017 and before 2026, referred to as the additional child tax credit (ACTC), except that the earned income threshold is temporarily decreased by \$500. For tax years beginning in 2018 through 2025, a taxpayer is eligible for a refund equal to 15 percent of his or her earned income in excess of \$2,500 (as opposed to \$3,000) to the extent the child tax credit exceeds the taxpayer's tax liability (Code Sec. 24(h)(6), as added by the Tax Cuts and Jobs Act).

The refundable amount for 2018 through 2025 is limited to \$1,400 per qualifying child regardless that the credit is \$2,000 per qualifying child Code Sec. 24(h)(5), as added by the Tax Cuts and Jobs Act). In addition, the \$500 credit for each dependent who is not a qualifying child is disregarded in calculating the ACTC (i.e., the refundable portion is only for qualifying children claimed by the taxpayer for the credit). The \$1,400 refund limitation per qualifying child for the ACTC is indexed annually for inflation after 2018.

COMPLIANCE NOTE

A taxpayer claiming the ACTC must complete Schedule 8812.

Taxpayer identification number required. A taxpayer must include on his or her return a qualifying child's Social Security number (SSN) to receive either the refundable or nonrefundable portion of the credit with respect to that child (Code Sec. 24(h)(7), as added by the Tax Cuts and Jobs Act). A SSN issued by the Social Security Administration (SSA) to the qualifying child is valid for purpose of the ACTC only if the child is a U.S. citizen or the SSN authorizes the individual to work in the United States under Section 205(c)(2)(B)(i) of the Social Security Act. In addition, the SSN must be issued to the qualifying child on or before the due date of the taxpayer's return.

COMMENT

A Social security card labeled "not valid for employment" merely allows the holder to receive federal benefits (e.g., Medicaid) and it does not give the holder a valid SSN to work in the United States. A Social Security card that reads "Valid for work only with DHS authorization" or "Valid for work only with INS authorization" is valid for work in the United States if the authorization is still valid.

A taxpayer who cannot claim the child credit because a qualifying child does not have a Social Security number may nonetheless qualify for the nonrefundable \$500 credit for the child (Code Sec. 24(h)(4)(C), as added by the Tax Cuts and Jobs Act).

COMMENT

A taxpayer can claim the nonrefundable \$500 credit for any person claimed as a dependent. In order to claim a dependency exemption for any person, the taxpayer must include a taxpayer identification number (TIN) of the dependent on his or her return (Code Sec. 151(e)). This may be satisfied by including the dependent's SSN, TIN, or adoption taxpayer identification number (ATIN) (Reg. §301.6109-1). Thus, a SSN is only required for a qualifying child in claiming the child tax credit. A SSN is not required to claim the nonrefundable \$500 credit for a child or nonchild dependent.

Effective date. The amendment made by this section applies to tax years beginning after December 31, 2017 (Act Sec. 11022(b) of the Tax Cuts and Jobs Act).