

2021 Tax Law Changes & Case Study

What is a fully refundable tax credit?

A fully refundable tax credit is the unused credit that is refunded to the taxpayer no matter how much the taxpayer's income tax liability is, thus generating a larger tax refund. (Ex: EIC, Add'l Child Tax Credit, "Daycare Credit")

Child Tax Credit has increased from \$2,000 to \$3,000 per child under the age of 18 and is now fully refundable. (See Sample(s) 1-4)

Child Tax Credit has increased from \$2,000 to \$3,600 per child under the age of 6 and is now fully refundable.

Additional Child Tax Credit is fully refundable, and is the remaining balance of the unused Child Tax Credit. (See Sample(s) 1-4)

Earned Income Credit (EIC) has increased for taxpayers claiming children by 3-5% and is fully refundable. (See Sample(s) 1-4)

Earned Income Credit has increased SUBSTANTIALLY for single taxpayers claiming no children and is fully refundable. (See Sample 5)

Child and Dependent Care Credit "Daycare Credit" has increased from \$1,200 to \$8,000 and is now fully refundable. (See Sample(s) 3 & 4)

Any unused "Daycare Credit" is fully refundable and is the remaining balance of the unused "Daycare Credit". (See Sample(s) 3 & 4)

Advanced Child Tax Credit Payments have been issued to taxpayers by the IRS. Advanced Payments include \$250 per month per child under the age of 18 and \$300 per month per child under the age of 6. These Advanced Payments will NOT EFFECT the size of tax refunds compared to last year due to the fact that the IRS is only advancing a portion of the increased Child Tax Credit from July 15th through December 15 of 2021. (Advanced Payments will expire Dec.15, 2021) (See Sample(s) 2 & 4)

The standard deduction for single taxpayers has increased from \$12,400 to \$12,550. (See Sample 5)

The standard deduction for Head of Household taxpayers has increased from \$18,650 to \$18,800. (See Sample(s) 1-4)

The standard deduction for Married Filing Joint taxpayers has increased from \$24,800 to \$25,100.

Sample 1	Sample 2	Sample 3	Sample 4	Sample 5
Head of Household taxpayer claiming 2 children ages 7 and 11. \$28,000 in W-2 wage earnings with zero in federal withholdings. No Advanced Payments recv'd.	Head of Household taxpayer claiming 2 children ages 7 and 11. \$28,000 in W-2 wage earnings with zero in federal withholdings. \$3,000 Advanced Payments recv'd.	Head of Household taxpayer claiming 2 children ages 7 and 11. \$28,000 in W-2 wage earnings with zero in federal withholdings and paid \$8,000 in child care expenses (daycare). No Advanced Payments recv'd.	Head of Household taxpayer claiming 2 children ages 7 and 11. \$28,000 in W-2 wage earnings with zero in federal withholdings and paid \$8,000 in child care expenses (daycare). \$3,000 Advanced Payments recv'd.	Single 20 year old taxpayer claiming no children. \$15,000 in W-2 wage earnings with \$540 federal withholdings.
Income \$ 28,000	Income \$ 28,000	Income \$ 28,000	Income \$ 28,000	Income \$ 15,000
Standard Deduction \$ -18,800	Standard Deduction \$ -18,800	Standard Deduction \$ -18,800	Standard Deduction \$ -18,800	Standard Deduction \$ -12,550
Taxable Income \$ 9,200	Taxable Income \$ 9,200	Taxable Income \$ 9,200	Taxable Income \$ 9,200	Taxable Income \$ 2,450
Income Tax \$ 920	Income Tax \$ 920	Income Tax \$ 920	Income Tax \$ 920	Income Tax \$ 245
Child Tax Credit \$ -920	Child Tax Credit \$ -920	Child Tax Credit \$ -920	Child Tax Credit \$ -920	Child Tax Credit \$ 0
Daycare \$ 0	Daycare \$ 0	Daycare \$ 0	Daycare \$ 0	Daycare \$ 0
Total Tax \$ 0	Total Tax \$ 0	Total Tax \$ 0	Total Tax \$ 0	Total Tax \$ 245
Fed. Withholdings \$ 0	Fed. Withholdings \$ 0	Fed. Withholdings \$ 0	Fed. Withholdings \$ 0	Fed. Withholdings \$ -540
Earned Income Credit \$ 4,253	Earned Income Credit \$ 4,253	Earned Income Credit \$ 4,253	Earned Income Credit \$ 4,253	Refund Sub Total \$ 295
Add'l Child Tax Credit \$ 5,080	Add'l Child Tax Credit \$ 2,080	Add'l Child Tax Credit \$ 5,080	Add'l Child Tax Credit \$ 2,080	Earned Income Credit \$ 957
Unused Daycare Credit \$ 0	Unused Daycare Credit \$ 0	Unused Daycare Credit \$ 4,000	Unused Daycare Credit \$ 4,000	Add'l Child Tax Credit \$ 0
2021 Refund \$ 9,333	2021 Refund \$ 6,333 +\$3,000 Advanced Payments	2021 Refund \$ 13,333	2021 Refund \$10,333 +\$3,000 Advanced Payments	Unused Daycare Credit \$ 0
2020 Refund \$ 6,289	2020 Refund \$ 6,289	2020 Refund \$ 6,289	2020 Refund \$ 6,289	2021 Refund \$ 1,252
				2020 Refund \$ 279