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Some Americans have smaller refunds or owe IRS due to 2021 child tax credit payments

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(The Center Square) – Americans around the country are finishing up their tax filings, but some will be surprised to see lower than expected returns because of the monthly child tax credit program from last year.

President Joe Biden passed the program through Congress in 2021, which increased the child tax credit and distributed part of it on a monthly basis for the second half of the year. The payments came as a surprise to many Americans, those expecting the full tax credit when filing this year may experience another one.

“Remember the child tax credit?” Yurpizy Morgan, a Republican candidate running for Maryland’s second Congressional district. “It was an advance, not a gift!”

Some Americans could even owe the IRS and have to partially pay back the monthly payments. The IRS addressed this concern on its website, where it answers the question, “Will I need to repay advance Child Tax Credit payments back to the IRS if they were greater than the Child Tax Credit amount that I am allowed on my 2021 tax return?”

To answer this question, the IRS said, “Maybe. If you qualify for the repayment protection ... you will be excused from repaying some or all of the excess amount. If you do not qualify for repayment protection, you will need to report the entire excess amount on your 2021 tax return as additional income tax. This additional income tax will reduce the amount of your tax refund or increase your total tax due for 2021.”

The complexity of these payments and American tax returns this year has been another burden for the IRS, which has taken fire for heavy backlogs.

The National Taxpayer Advocate said in its annual report to Congress that this federal program has helped create millions of backlogged tax returns at the IRS.

“To add complexity, when taxpayers file their 2021 tax returns, millions who received Advance Child Tax Credit (AdvCTC) payments will have to reconcile the monthly advanced payments they received with the amounts for which they are eligible,” the report said. “Similarly, eligible taxpayers who did not receive some or all of the third round of stimulus payments, as authorized by the American Rescue Plan Act, will have to claim them as credits on their returns. Thus, the unprecedented processing and refund delays taxpayers experienced in 2021 could be as bad, and potentially worse, in 2022 if taxpayers do not file electronically or do not properly reconcile their monthly AdvCTC payments or the third stimulus payment with their 2021 return.”

Chris Edwards, an expert at the Cato Institute, echoed this sentiment, saying the increasing complexity of the tax code is making things harder for taxpayers and the IRS.

“The creation of monthly payments for child tax credits was a bad idea,” Edwards said. “It increased tax complexity and generated administrative hassles for the IRS. IRS administration is a train wreck because Congress keeps making the tax code more complicated. The expanded child tax credit is one factor causing the IRS mess.”