

Advance Child Tax Credit Payments 2003

Starting July 25, the IRS will begin issuing advance payment checks to about 25 million taxpayers who claimed the child tax credit on their 2002 tax return. Taxpayers who did not claim a child tax credit on their return will not receive an advance payment. The payment is an advance refund of the expanded child tax credit for the 2003 tax year. The child tax credit will increase to a maximum of \$1,000 per child from \$600. Taxpayers could receive up to \$400 for each qualifying child they claimed on their 2002 return.

Advance Payment Guidelines

The IRS will use 2002 tax year data to determine who will receive the automatic advance payment. Generally:

- Taxpayers must have claimed the Child Tax Credit on the 2002 tax return.
- Taxpayers must have used Form 1040 or Form 1040A, or filed electronically.
- The child must have been born after 1986.

Examples of Taxpayers Who Qualify

1. Mr. and Mrs. Brown have two children, ages 8 and 10; their 2002 AGI (Adjusted Gross Income) was \$50,000 and they claimed a Child Tax Credit of \$1,200. The Browns will receive an advance payment of \$800.
2. Mr. and Mrs. Green have two children, ages 11 and 13; their 2002 AGI was \$125,500 and they claimed a Child Tax Credit of \$400 because of the phase-out provision. The Greens will receive an advance payment of \$800.
3. Ms. Gray has one child, age 7; her 2002 earned income was \$16,560; she claimed a Child Tax Credit of \$368 and an Additional Child Tax Credit of \$232. Ms. Gray will receive an advance payment of \$389.
4. Mr. and Mrs. White have three children, ages 12, 14 and 16 in 2002; their 2002 AGI was \$65,000 and they claimed a Child Tax Credit of \$1,800. The Whites will receive an advance payment of \$800, based on their two younger children, since their oldest child turns 17 in 2003.

Not All Are Eligible

Some taxpayers with children are not eligible for the advance payment, including:

- Taxpayers who filed Form 1040EZ, which doesn't provide for claiming dependents or the Child Tax Credit.
- Taxpayers who had income that exceeded certain limits.
- Taxpayers whose only children were born before 1987.

- Taxpayers whose only child was born in 2003.
- Taxpayers whose Child Tax Credit and Additional Child Tax Credit for 2002 totaled less than \$600 for each qualifying child because of the tax liability and earned income limitations.

The Child Tax Credit begins to phase out for taxpayers with modified adjusted gross income above:

- \$110,000, if married filing jointly
- \$55,000, if married filing separately, or
- \$75,000, for all others.

For every \$1,000 or portion thereof above these thresholds, the total credit amount is reduced by \$50. Thus, in 2002 a taxpayer with two children (who would otherwise have a \$1,200 credit) had the Child Tax Credit completely phase out if his/her AGI was more than \$23,000 above the threshold. The higher per child credit amount for 2003 will mean that a taxpayer with two children will not have the \$2,000 credit amount completely phase out unless his/her AGI is more than \$39,000 above the threshold.

A taxpayer who was not eligible for the Child Tax Credit for 2002 will not receive an advance payment check, even though the higher phase-out limit may allow this taxpayer to claim the credit when filing the 2003 tax return.

1. What do I need to do to get an advance payment check?

Nothing at all — the IRS will take care of everything. The IRS uses your 2002 tax data to automatically figure whether you're due an advance payment check and if so, how much it will be. If you're eligible to receive a check, the IRS'll notify you shortly before it mails the check. You won't need to call or fill out any forms or applications.

2. How do I find out if I'm eligible?

Generally, you're eligible if you claimed the child tax credit on your 2002 tax return and your qualifying child was born after 1986. The IRS will send you a notice of your advance payment amount a few days before your check is mailed.

3. When will I receive my check?

The Treasury will mail most of the advance payment checks on July 25, August 1, and August 8. The mailings will be scheduled according to the last two digits of the Social Security number that appears first on the 2002 tax form.

Treasury will continue to mail checks until late December to taxpayers who filed returns after April 15, such as those who requested automatic extensions. If you are one of these filers, do not change your 2002 return or payment amount based on your

expectation of receiving an advance payment check. If you are eligible, you will receive your advance payment after the IRS processes your 2002 return.

4. Why is Treasury mailing the check instead of using direct deposit?

People often change bank accounts. While people also move, a mailed check can and will be forwarded to a new address. However, a direct deposit cannot be forwarded if a bank account has been closed.

5. I have moved since filing my 2002 tax return; how will my check reach me?

You should file a change of address notice with the U.S. Postal Service to ensure that your advance payment check may be forwarded to your new address. Without your current address, the check could be returned to the IRS as undeliverable.

6. I have not filed my 2002 tax return yet, can I still qualify for an advance payment?

Yes. If you filed for an extension, you have until Aug. 15 to file your 2002 tax return. (Under some circumstances, you may seek another extension until Oct. 15.) If you claim a child tax credit on your 2002 return, follow the 2002 tax law in figuring the amount. Do not change your return or your tax payment in anticipation of an advance payment. If you are eligible for the advance payment, we will mail your check four to six weeks after we receive your 2002 tax return.

7. My spouse and I have divorced and the advance payment check is made out to both of us. Can I cash it?

If the check is made payable to two parties, then both parties must endorse the check on the back. Even if the two parties are now divorced, both must sign the check.

8. Will I qualify for an advance payment if my qualifying child turns 17 on December 31, 2003?

No. Your qualifying child must have been born after 1986 for you to be eligible for an advance payment.

9. What if I receive an advance payment that's larger than the Child Tax Credit I am entitled to claim on my 2003 return?

When figuring your 2003 child tax credit, you will subtract your advance payment from the amount you would otherwise claim. If your advance payment was more than this amount, you will not have to repay the difference. The new law bases the advance payment on the child tax credits claimed on the 2002 tax return. Of course, we recognize that your tax situation can change from year to year.

10. Will this advance payment raise my taxes for 2003?

No – it's part of the tax cut the new law gives you for 2003. Keep the notice the IRS sends you for your tax records. You will need your advance payment amount to figure the child tax credit on your 2003 return.

11. I'm eligible but I didn't receive my check. What should I do?

If you do not receive an advance payment check, you will still be entitled to up to an additional \$400 per qualifying child if you claim the Child Tax Credit on your 2003 tax

return. In either way — through the advance payment or through claiming the credit on your return — you will receive the benefit of the credit's increase from a maximum of \$600 to \$1,000 per child.

12. If I receive the advance Child Tax Credit payment, will I get a smaller refund than last year?

Assuming your income and number of qualifying children remain the same, your 2003 refund shouldn't be smaller than your 2002 refund because of your advance payment. That's because the advance payment is the same amount as the increase in the value of the credit. The law simply gives you this increase now, rather than having you wait until next year for a bigger refund. When you figure the Child Tax Credit on your 2003 return, you will subtract the amount of your advance payment check from the \$1,000-per-child total, generally leaving you with the same \$600-per-child credit that you had in 2002.

13. I'm eligible for an advance Child Tax Credit payment, but I still owe federal income tax from last year. Will my advance payment be reduced because of this?

Like any tax refund, the advance payment may be applied against a taxpayer's past-due federal or state income tax, or non-tax federal debt. If the advance payment amount is more than the balance owed, the taxpayer will get a check for the difference. Taxpayers subject to such offsets will receive a letter explaining how the advance payment was applied.