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The American Rescue Plan Act of 2021 (ARPA), signed into law by President Joe Biden in March 2021, made significant, though temporary, enhancements to several tax credits that supported families with children, particularly in the wake of the COVID-19 pandemic. One of the major areas of impact was childcare-related tax credits, notably the Child and Dependent Care Tax Credit (CDCTC) and the Child Tax Credit (CTC).

Here's a breakdown of what ARPA did in the context of childcare tax credits:

1. Child and Dependent Care Tax Credit (CDCTC)
This credit helps families offset the cost of childcare so that parents can work or look for work. Under ARPA, the credit was dramatically expanded for tax year 2021 only.
Key Changes in 2021:

- Refundable for the first time: This meant that families could receive the credit even if they owed no federal income taxes – a major benefit for low-income families.
- Increased maximum expense limit:
  - Increased from $3,000 to $8,000 for one child.
  - Increased from $6,000 to $16,000 for two or more children.

- Larger percentage of expenses covered:
  - Previously, only 20–35% of eligible expenses were covered, depending on income.
  - Under ARPA, families earning up to $125,000 could claim 50% of expenses – that's up to $4,000 for one child or $8,000 for two or more children.

- The credit phased out completely for households with income over $438,000.

Purpose:
This temporary boost aimed at helping families afford childcare and return to the workforce after pandemic disruptions.

2. Child Tax Credit (CTC)
Though not directly for childcare, this credit also saw major temporary enhancements under ARPA and helped families afford basic needs, including childcare.

- Key Changes in 2021:
  - Increased credit amounts:
  - From $2,000 to $3,000 per child ages 6–17.
    $3,600 per child under age 6.
- Expanded eligibility:
  - Previously, children aged 17 were excluded – ARPA included them.
- Advance monthly payments:
  - Eligible families received monthly payments from July to December 2021 – up to $300/month per child under 6, and $250/month per child 6–17.
- Fully refundable: Even families with no tax liability could receive the full amount.

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Why It Mattered for Childcare

Together, these changes:

- Put more money directly into the hands of families.
- Helped cover the high cost of childcare, especially during a time when many childcare centers were struggling to stay open.
- Reduced child poverty dramatically during 2021, especially among working-class families.

What Happened After 2021?

- These enhancements were only for the 2021 tax year.
- In 2022 and beyond, the credits reverted to pre-ARPA levels, unless extended by Congress (which didn't happen as of mid-2025).

Summary

The American Rescue Plan Act of 2021 temporarily transformed childcare tax credits to provide unprecedented financial support for working families.

It made the Child and Dependent Care Tax Credit more generous and refundable and expanded the Child Tax Credit with monthly payments.

These changes helped many families afford childcare during a critical time but were not extended beyond 2021 without further legislative action.

Child and Dependent Care Tax Credit (CDCTC) – Tax Year 2025

- Eligible families can claim up to $3,000 in qualified child care expenses for one qualifying dependent, or $6,000 for two or more dependents the same limits in effect since 2001
- The credit percentage ranges from 20% to 50%, depending on your Adjusted Gross Income:
  - Families with lowest incomes receive the full 50% credit on eligible expenses.
  - The percentage gradually decreases with higher income, reaching 20% once income exceeds certain thresholds (~$206K joint, ~$103K single).

- The maximum credit available:
  - $1,500 for one child (50% of $3,000)
  - $3,000 for two or more (50% of $6,000)

- Note: the CDCTC is non refundable in 2025. You can't receive a refund if the credit exceeds your tax owed (though you can offset your tax liability entirely).

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Child Tax Credit (CTC) – Tax Year 2025

- The Child Tax Credit is worth up to $2,200 per qualifying child under age 17 as of year-end 2025 – an increase from the previous $2,000 limit.
- The refundable portion (Additional Child Tax Credit, ACTC) allows families to receive up to $1,700 per child as a refund if the credit exceeds their tax liability.

Income phase outs:

- $400,000 MAGI or less (married filing jointly)
- $200,000 or less for single filers, with the credit reduced by $50 per $1,000 above thresholds.

In Summary

Eligible families filing for tax year 2025 can claim:

- A Child and Dependent Care Tax Credit up to 50% on up to $3K/$6K in childcare expenses (non-refundable).
- A Child Tax Credit of up to $2,200 per child, with up to $1,700 refundable via the ACTC.
- Businesses can offer support with care benefits via the employer credit (IRC § 45F).

All ARPA-era expansions of 2021 are now expired unless new legislation extends them. Consult Form 2441 for CDCTC, Schedule 8812 for CTC/ACTC, and IRS Publication 503 for detailed rules.

There are rules for these federal tax credits, so please speak to your tax advisor about how they apply to your family.