



Tax



Tax Credits



Taxpayers

# Key Tax Credits Available on the 2021 Puerto Rico Individual Income Tax Return

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There have been significant changes regarding the tax credits available for taxpayers for tax year 2021.

The American Rescue Act of 2021 (hereinafter “ARPA”) was enacted to aid American workers and bring them immediate relief in response to the aftermath of the Coronavirus Pandemic. ARPA increased several tax credits to extend financial aid for qualifying taxpayers and allow additional taxpayers to benefit from them. Some of these credits were extended to Puerto Rico bona fide residents increasing interest and traffic on individual tax return filings for the 2021 tax year. These are federal tax credits, administered by the Puerto Rico Treasury Department except for the child tax credit which is claimed directly to the IRS. Below you will find eligibility and requirement details for these credits, so you do not miss the opportunity to claim those you are eligible for.

## Child Tax Credit

- *who is eligible?*

Puerto Rico bona fide residents with qualifying dependents are eligible for the child tax credit. To be a qualifying dependent, the following general requirements must be met:

- the child must be 17 years old or younger,
- the child must have lived with the taxpayer for more than half the year,
- the taxpayer provided at least half of his or her financial support during the year,
- if married, the child will not file a joint tax return, and
- it is the taxpayer’s child or the descendant of such child or the taxpayer’s brother, sister, stepbrother or stepsister or descendant of such relative.

For 2021, ARPA extended the availability of the credit for 17 years old dependents and enhanced the credit by eliminating certain restrictions. In past years bona fide Puerto Rico residents were only able to qualify for the credit if they had three or more qualifying children. Additional limitations included that the taxpayer was required to have earned income and social security or Medicare taxes withheld or paid self-employment tax.

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- *what is the credit for?*

This credit is to help and assist families who have or take care of children. The credit amount as well as the age limits have increased for 2021.

- *how much is the credit?*

For taxable year 2021, the child tax credit offers the following:

- up to \$3,000 for a qualifying child from 6 to 17 age years old
- up to \$3,600 for a qualifying child under 6

The maximum credit is available to taxpayers with a modified adjusted gross income of:

- if single, \$75,000, or less
- if head of household, \$112,500 or less
  - if married filing jointly, \$150,000, or less

The amount of credit is reduced by \$50 for each \$1,000 the taxpayer's modified adjusted gross income exceeds the abovementioned thresholds. Special limitations on the reductions apply.

- *how to claim it?*

This credit is claimed filing federal income tax returns with the IRS using one of the following forms:

- form 1040 for taxpayers with income from sources outside Puerto Rico, using
  - schedule 8812 - Credits for Qualifying Children and Other Dependents
- form 1040-PR for taxpayers who do not have income from sources outside Puerto Rico

- *is the credit refundable?*

Yes, it is refundable if the taxpayer is a US or Puerto Rico bona fide resident.

### **Earned Income Tax Credit (EITC)**

- *who is eligible?*

- taxpayer who is a Puerto Rico bona fide resident during the entire taxable year and at the time of filing the income tax return, along the spouse, and any qualifying dependents.
  - qualifying dependent must be a child, stepchild, legally adopted child or descendent that: (i) is a resident of Puerto Rico by the end of the tax year, (ii) under 19 at the end of the tax year or under 26 if a full time student, (iii) qualified to be claimed as a dependent by the taxpayer who is claiming the credit, (iv) has a valid social security number or an adoption taxpayer identification number, and (v) is not claimed by another taxpayer.
- taxpayer cannot be claimed as dependent by another taxpayer.
- taxpayer and the spouse, in the case of married taxpayers, must be 19 years of age or older at the end of the taxable year for which the credit is claimed.
- taxpayer must have Earned Gross Income (EGI) during the taxable year (e.g., salaries, pensions, self-employment earnings).
- taxpayers with passive income (e.g., dividends, interest) in excess of \$10,000 are disqualified.
- if claiming the EITC, the taxpayer cannot claim the credit for seniors (persons of 65 years or older) nor the compensatory credit for low-income pensioners.

- *what is the credit for?*

This credit helps low to moderate income workers, particularly those with qualifying dependents. If you qualify for this credit, you can reduce your tax liability and increase

your refund. For 2021, more childless workers are eligible for a fully refundable tax benefit under the EITC.

- *how much is the credit?*

The amount of the EITC varies depending on the number of qualifying children and the amount of EGI of the taxpayer. The maximum amount for this credit is \$6,500.

The maximum amount of credit the taxpayer can claim on 2021 is as follows:

<b>Number of Qualifying Children</b>	<b>Maximum Credit</b>	<b>Credit is reduced if EGI falls within the threshold below and phases out after exceeding the upper limit</b>
<b>0</b>	\$1,500 (15% of EGI)	Single - \$16,001 - \$26,000 Married Filing Jointly - \$18,001 - \$28,000
<b>1</b>	\$3,500 (33.98% of EGI)	Single - \$18,001 - \$31,000 Married Filing Jointly - \$22,001 - \$35,000
<b>2</b>	\$5,500 (40% of EGI)	Single - \$21,001 - \$37,000 Married Filing Jointly - \$25,001 - \$41,000
<b>3</b>	\$6,500 (44.83% of EGI)	Single - \$21,001 - \$40,000 Married Filing Jointly - \$25,001 - \$44,000

- *how to claim it?*

This credit is claimed on Schedule CT Individual – Earned Income Credit of the Puerto Rico Individual Income Tax Return.

- *is the credit refundable?*

Yes, it is refundable.

### **Economic Impact Payment - EIP #3**

- *who is eligible?*

- individuals who have not received the 3rd economic impact payment during 2021 may request it as a refundable credit for the taxable year.
- taxpayer must be a Puerto Rico bona fide resident during the entire taxable year.
- taxpayer or spouse cannot be claimed as dependent by another taxpayer.
- taxpayer and spouse, if filling jointly, must have a valid social security number.

- *what is the credit for?*

This credit was authorized for 2021 by ARPA to help and bring families relief during the Covid-19 pandemic.

- *how much is the credit?*

- \$1,400 for eligible individuals that file as single, head of households or married filing separately or \$2,800 for married individuals that file jointly
- \$1,400 for each qualifying dependent
- credit will be subject to reduction when the adjusted gross income exceeds \$75,000 for single individuals or married filing separate couples, \$150,000 for married couples filing jointly, and \$112,500 for heads of household.

- *how to claim it?*  
This credit is claimed on Schedule B3 – Economic Impact Payment of the Puerto Rico Individual Income Tax Return.
- *is the credit refundable?*  
Yes, it is refundable for 2021 only.

### Credit for Sick and Family Leave

- *who is eligible?*  
Eligible individuals for this credit are self-employed bona fide Puerto Rico residents for the taxable year who earned self-employment income and who were not able to work during the prescribed period due to personal COVID-19 sickness or were in the care of others due to certain COVID-19 related circumstances. The individual must have been eligible for personal or family sick leave under the Family First Coronavirus Response Act, as amended.

Self-employment income is regularly reported on one of the following schedules:

- schedule J – Manufacturing Income
- schedule K – Income from the Sale of Goods
- schedule L – Farming Income
- schedule M – Income from Services Rendered

Rental income is not eligible unless it is earned by a professional dedicated to real estate. The individual must not have been claimed as a dependent in another tax return for the taxable year.

- *what is the credit for?*  
The credit was established by the Family First Coronavirus Response Act, as amended, as a substitute for paid sick leave for individuals who are self-employed and were not able to perform their self-employment activity due to being affected by certain circumstances related to COVID-19 from April 1, 2020, to March 31, 2021.
- *how much is the credit?*  
The taxpayer can claim an amount equivalent to up to 10 days of work. The credit is calculated based on the daily average work rate limited to \$511 if the taxpayer was not able to work due to its own sickness. If the taxpayer was caring for a qualified dependent, he or she will be entitled to 67% of the daily average work rate limited to \$200.

The amount can be further reduced by any amount paid for sick leave by an employer to the individual.

- *how to claim each credit?*  
The credit can be claimed on Schedule B4 – Refundable Credit in Connection with Sick Leave and Family Leave Licenses for sick leaves from April 1, 2020, to December 31, 2020, and in Schedule B4.1 for sick leaves from January 1, 2021, to March 31, 2021.

Although Schedules B4 and B4.1 only allow to claim a credit for sick leaves from April 1, 2020, to March 31, 2021, ARPA amendments, extended the eligibility period to September 30, 2021. The terms for the disbursements of credits applicable from April 1, 2021, to September 30, 2021, are still being negotiated by the Puerto Rico Treasury Department and the US Internal Revenue Service.

- *is the credit refundable?*  
Yes, is refundable for 2021 only.

## Child and Dependent Care Tax Credit

- *who is eligible?*

An individual who was a Puerto Rico Bona fide resident for the taxable year and paid expenses for the care of a qualified person to enable the individual work or look for work. A qualified person for this credit is:

- dependents that do not have 13 years of age when care services are provided or
- spouse or dependent that is not physically or mentally capable of taking care by themselves, and
- must have lived with taxpayer more than half of the taxable year.

The individual must be able to claim the qualified person as a dependent on its personal income tax return and the individual claiming the credit must not be claimed as a dependent on the individual's income tax return.

- *what is the credit for?*

This credit is for child and dependent care if the expenses were paid to help the taxpayer return to work or search for work.

- *how much is the credit?*

The credit will be determined as a percentage of the expenses paid for childcare of a qualified dependent. The percentage will depend on adjusted gross income as follows:

- 50% if adjusted gross income is \$125,000 or less
- 50% if adjusted gross income is more than \$125,000 up to \$183,000 reduced by 1% for each \$2,000 of gross adjusted income in excess of \$125,000
- 20% if adjusted gross income is more than \$183,000 up to \$400,000
- 20% if adjusted gross income between \$400,00 and \$438,000 reduced by 1% for each \$2,000 of gross adjusted income in excess of \$400,000
- 0% if adjusted gross income exceeds \$438,000

The limit of expenses to be claimed is:

- \$8,000 for one qualified person
- \$16,000 for two or more qualified person

- *how to claim the credit?*

The credit is claimed and calculated in Schedule B5 - Eligible Dependent's Care Credit of the 2021 Individual Puerto Rico Income Tax Return which mirrors US Form 2441 - Child and Dependent Care Expenses. It requires to disclose the name, address and Employer Identification Number or Social Security Number of the service provider.

- *is the credit refundable?*

The credit is refundable for 2021 only.



Please note that the credit for the American Opportunity is still available and can be claimed on Schedule B2. It was not included as part of the discussion since it was available on previous years.

**DISCLAIMER:** At the moment of this publication the Puerto Rico Treasury Department has not yet issued the final instructions for the 2021 individual tax return. Only a draft of these instructions is available and does not provide additional guidance on the preparation of schedules B3, B4, B4.1, CT. We recommend you continue monitoring PRTD publications for any updated information.

We are committed to keeping you up to date with all tax-related developments. Please contact our Tax Department should additional information be required regarding this or any other tax issue. We will be glad to assist you.



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