

# ISSUE BRIEF: TRANSITION-AGE YOUTH AND TAX CREDITS



## Who are Transition-Age Youth?

Transition-Age Youth (“TAY”) are teenagers and young adults **between ages 16 and 24** who are making the transition to adulthood. In 2020, there were about 38.38 million TAY in the United States.<sup>1</sup> This period of time is when young people are making decisions about their future, working to complete school, and entering the workforce. Young people in this age group share a unique potential to experience **lifelong benefits from the support and interventions** that they receive during this important time period. For example, providing TAY the opportunity to develop workforce skills can result in these young people securing careers as adults or expanding their career pathways. The unique potential of TAY warrants **tailored policy responses** to the challenges that threaten their future success.

Several **subpopulations of TAY** face additional obstacles to reaching their full adult potential: **youth with experience in foster care, the juvenile justice system and youth who are homeless.** These young people and **“opportunity youth,”** a term that has been used to describe the 5.5 million youth between ages 16 and 24 who are not connected to school or work, have experienced instability and disconnection from their communities that leave them without ties to people who can guide them through the coming-of-age trials that all TAY experience.

As a society, we should ensure that all TAY have access to bridges over obstacles and to opportunities, and we must tailor policy solutions so no young person is excluded. This brief is focused on enhancing the financial stability of TAY who have experienced foster care because they often lack the support of family that most young people rely on while making the transition to adulthood and face unique barriers to success due to their system involvement. For example, while about 40% of surveyed urban young people in their early 20’s receive about \$3,000 a year from their parents,<sup>2</sup> young people who have been in foster care often lack the connections to family members who can provide such financial support or who can offer social connection to opportunities and resources. Additionally, this brief focuses on TAY who have experienced foster care because many TAY who have struggled to engage in secondary or post-secondary education or career training are often excluded from the small amount of financial support that the foster care system is authorized to provide.

## Pre-Pandemic Well-being of TAY with Foster Care Experience

An analysis by First Focus on Children estimates that there are approximately 700,000 of TAY (ages 16-24) with foster care experience. Young people who have experienced foster care historically face

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1 Kids Count Data Center. “Child population by single age KIDS COUNT Data Center.” *Annie E. Casey Foundation*, <https://datacenter.kidscount.org/data/tables/100-child-population-by-single-age?loc=1&loct=1#detailed/1/any/false/574,1729,37,871,870,573,869,36,868,867/42,43,44,45,46,47,48,49,50,51,52,53,54,55,56,57,58,59,60,61/418>.

2 Quoctrung Bui. “A Secret of Many Urban 20-Somethings: Their Parents Help With the Rent.” *The New York Times*, (Feb., 9, 2017). <https://www.nytimes.com/2017/02/09/upshot/a-secret-of-many-urban-20-somethings-their-parents-help-with-the-rent.html>.

many unique challenges to economic stability.

- » 85% of youth who leave foster care at age 18 or older are aging out, meaning they are leaving foster care and have no legal connection to family.
- » Of the youth with experience in foster care surveyed at age 21 as part of the National Youth in Transition Database (NYTD) completed in fiscal year 2018:<sup>3</sup>
- » 55% were employed full- or part-time
- » 27% were homeless in the past two years
- » 22% had children in the last two years
- » 31% were receiving public assistance

## **Pandemic Impact on TAY**

Even before the outbreak of COVID-19, many children and youth in the United States faced considerable hardship. The U.S. historically has a much higher rate of child poverty than peer countries,<sup>4</sup> and in 2019, children experienced poverty at a rate over 50 percent higher than adults,<sup>5</sup> with children of color living in poverty at a rate nearly three times that of white children. The Pandemic made things even harder for many teens and young adults.<sup>6</sup>

- » The overall unemployment rate for workers ages 16–24 jumped from 8.4% to 24.4% from spring 2019 to spring 2020 (while unemployment for their counterparts ages 25 and older rose from 2.8% to 11.3%).
- » Spring 2020 unemployment rates were even higher for young Black, Hispanic, and Asian American/Pacific Islander (AAPI) workers (29.6%, 27.5%, and 29.7%, respectively).
- » Young workers were more likely to be in industries and occupations that were negatively impacted during the pandemic.
- » Until the American Rescue Plan, young workers were excluded from COVID-19 assistance.

## **Spotlight: The Pandemic's Impact on TAY with Foster Care Experience**

Young people who had been in foster care were particularly hard hit by the pandemic and many of them were missing permanent (and legal) connections to older adults who could assist them.<sup>7</sup> For

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3 Children's Bureau. *National Youth in Transition Database, Data Brief #7 Highlights from the NYTD Survey: Outcomes reported by young people at ages 17, 19, and 21 (Cohort 2)*. (Nov. 2019). [https://www.acf.hhs.gov/sites/default/files/documents/cb/nytd\\_data\\_brief\\_7.pdf](https://www.acf.hhs.gov/sites/default/files/documents/cb/nytd_data_brief_7.pdf)

4 Timothy Smeeding & Céline Thévenot, (2016). "Addressing Child Poverty: How Does the United States Compare With Other Nations?" *Academic Pediatrics*, 16(3 Suppl), S67–S75. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6087662/>

5 First Focus on Children, Children's Defense Fund, & U.S. Child Poverty Action Group. *Evaluating 2019 Census Child Poverty Data in the Wake of COVID-19*. (Sept. 24, 2020). <https://firstfocus.org/resources/fact-sheet/evaluating-2019-census-child-poverty-data-in-the-wake-of-covid-19>

6 Elise Gould & Melat Kassa, *Young workers hit hard by the COVID-19 Economy, Workers ages 16–24 face high unemployment and an uncertain future* (October 14, 2020), Economic Policy Institute, <https://www.epi.org/publication/young-workers-covid-recession/>.

7 FosterClub. *Poll Results Checking in on Young People from Foster Care As COVID-19 Continues*. (Dec. 22, 2020). <https://www.fosterclub.com/sites/default/files/docs/blogs/COVID%20Poll%20Results%20Dec%202020%20Final.pdf> & John Burton Advocates for Youth, *Hanging on by a Thread: The Cumulative Impact of the Pandemic on Youth Who Have Been in Foster Care or Homeless*. (May 2021), <https://jbay.org/wp-content/uploads/2021/05/Pandemic-Youth-Survey.pdf>

example, of the 24,695 young people with foster care experience (ages 14 to 27) surveyed by Think of Us a year after the onset of the pandemic:<sup>8</sup>

- » 41.4% who worked full-time before COVID-19 reported having their hours/ income severely cut.
- » 52.1% reported losing their gig/informal work.
- » 36% who worked part-time reported having their hours/income severely cut.
- » 73.8% reported high financial insecurity
- » 22.1 % reported high food insecurity
- » 29.2% reported being in a worse housing situation in November 2020 than before COVID-19
- » Expectant and parenting young people reported higher levels of financial insecurity than their peers:
- » Black or African American, biracial or multiracial respondents also experienced higher levels of financial security overall than their peers.

## Overview of Recent Changes to Federal Tax Credits

In 2021, Congress modified:

- » The **Earned Income Tax Credit**
  - **Expanded eligibility for current and former foster youth and homeless youth** (even if they are part-time students) to age 18 rather than age 25, which could benefit an estimated 380,000 to 500,000 former foster youth.
  - **Lowered the age of eligibility for the credit to 18 from 25 for former foster youth and youth experiencing homelessness** who do not have qualifying children and lowered the age to 19 for other TAY workers who are childless.
  - Increased the amount of the credit and made former foster youth and youth experiencing homelessness temporarily **eligible for hundreds or even thousands of dollars in tax credits.**
- » The **Child Tax Credit**
  - **Parenting youth can now receive up to \$3,600 per child per year** from the federal advance Child Tax Credit depending on age of children and household income
  - **Advance Child Tax Credit funds can be received monthly** (up to \$300 per child) or in full when taxes are filed in 2022.
- » The **Child and Dependent Care Tax Credit.**
  - Made the CDCTC temporarily **refundable for the first time**
  - Increased the credit to **\$4,000 for one child and \$8,000 for two children**

## Tax Credits Offer Direct Support for TAY with Foster Care Experience

Recent, temporary changes to federal tax credits provide TAY with foster care experience with critical financial support as they face new (and often unexpected) costs that accompany adulthood. The changes also help young people with costs that get them back to work and school. These changes

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<sup>8</sup> Think of Us, *COVID-19 Microcash Grant Application Data Briefing*. (March 2021). [https://drive.google.com/file/d/1OxrEI00cowLljDiyCvwOoCEp4XI9\\_PSw/view?ts=60d22dc1](https://drive.google.com/file/d/1OxrEI00cowLljDiyCvwOoCEp4XI9_PSw/view?ts=60d22dc1)

benefit the country because poverty is expensive and ultimately we all shoulder the cost when our government fails to support young people. While we have yet to see the exact impact of these tax credit changes we should expect a benefit to young people: The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) lifted more than 4 million children above the federal poverty line in 2019,<sup>9</sup> increasing household income and helping families afford health care, nutritious food, stable housing, diapers, educational materials, extracurricular activities and more.

New data from Columbia University’s Center on Poverty and Social Policy found that the Child Tax Credit advance payments kept 3.8 million children from poverty in November 2021.<sup>10</sup> This is the highest monthly anti-poverty impact seen to date. The advance payments in July kept 3 million children from poverty, and the anti-poverty impacts have only grown as the Internal Revenue Service has been able to reach more children.

### **Pilot Program: How a County Increased Receipt of Tax Credits Among TAY who have Foster Care Experience**

In 2021, John Burton Advocates for Youth, and several other organizations established a partnership in Santa Clara County to ensure current and former foster youth received state and federal tax credits and stimulus payments only accessible by filing taxes. The partnership identified that while many young people with experience in foster care were eligible for stimulus payments and tax credits, few were receiving these funds because they lacked the support and assistance needed to file their taxes and did not have access to youth-friendly outreach materials. The partnership conducted a pilot program where they started a Volunteer Income Tax Assistance (VITA) site at Santa Clara County’s youth center, trained volunteer tax preparers, crafted policies and protocols for the local social services agency and created youth-friendly outreach materials. As a result of this pilot program:<sup>11</sup>

45 youth with foster care experience filed their taxes at the VITA site	Over \$135,000 received in state and federal tax refunds by all the participants	100% of the TAY had a positive increase in their income because they filed through the pilot program
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### **Tax Credits significantly boosted the annual income of TAY who have Foster Care Experience**

The Santa Clara pilot program shows that TAY who have been in foster care can receive a significant increase in their annual income if they file their taxes and maximize their credit claims.

- » The average income of pilot participants was just \$16,880.

<sup>9</sup>Liana Fox. “The Supplemental Poverty Measure: 2019” (Sept. 15, 2020). U.S. Census Bureau. <https://www.census.gov/library/publications/2020/demo/p60-272.html>

<sup>10</sup>Center on Poverty and Social Policy. *November Child Tax Credit payment kept 3.8 million children from poverty.* (Dec. 15, 2021). Columbia University. <https://www.povertycenter.columbia.edu/news-internal/monthly-poverty-november-2021>

<sup>11</sup>John Burton Advocates for Youth. *Money in the Pocket During the Pandemic: Results from Santa Clara County Pilot to Increase Receipt of Tax Credits Among Transition-Age Foster Youth.* (Aug. 2021), [www.jbay.org/resources/money-in-the-pocket/](http://www.jbay.org/resources/money-in-the-pocket/)

- » Pilot participants who filed as single **received a 14% boost to their income.**
- » Parenting TAY **received a 42% boost to their income.**
- » Pilot participants **recovered \$38,700 of missing Coronavirus relief stimulus payments** from 2020.
- » Pilot participants recovered an average of \$420 in state withholdings.

## **Making the Workforce Opportunity Tax Credit Work for TAY**

In 1996, Congress created the Workforce Opportunity Tax Credit (WOTC) to incentivize employers to hire people who have faced barriers to securing employment. These individuals include qualified veterans, recipients of Supplemental Security Income (SSI) or benefits from the Supplemental Nutrition Assistance Program (SNAP), residents of rural renewal counties and empowerment zones, people returning from prison, summer youth employees and others. The tax generally provides the employer up to \$2,400 for a new, qualified employee who works 400 hours for the employer, but more can be claimed for certain qualified veteran employees.<sup>12</sup> WOTC for summer youth employees is capped at \$1,200.<sup>13</sup>

In recent years, Rep. Danny Davis (D-IL) and other members of Congress have proposed federal legislation to modify the WOTC to incentivize employers to hire TAY.

- » **H.R.3986 - Promoting Employment of Skilled Workers and Foster Youth Act of 2021 / Rep. Danny Davis (D-IL)**
  - Adds “pre-apprentice graduates” and “qualified foster care transition youth” to the list of employees for whom an employer could claim WOTC.
  - A “qualified foster care transition youth” is any individual who is certified by the designated local agency as (1) not having attained age 27 as of the hiring date, and (2) as having been in foster care after attaining the age specified in provisions of the Social Security Act related to the John H. Chafee Foster Care Program for Successful Transition to Adulthood (which is currently 18 years of age).
- » **S.1550, Helping to Encourage Real Opportunities (HERO) for At-Risk Youth Act of 2019 / Sens. Richard Durbin and Tammy Duckworth (Ds-IL)**
  - Allows employers to claim WOTC for youth employees year round, instead of only during the summer.
  - Allows employers to claim a \$2,400 tax credit through the WOTC for youth employees (i.e., the same WOTC as they can claim for qualified adult employees).
  - Adds “at-risk youth” to the list of employees for whom employers can claim the WOTC. “At risk youth” include youth ages 16-24 who are out of school and out of work, and current or former foster youth between 16 and 21 years old who were in care within 12 months of being hired.
- » **H.R.3106/S.1562 - Creating Pathways for Youth Employment Act / (Rep. Robin Kelly (D-IL) & Sens. Richard Durbin and Tammy Duckworth (Ds-IL)**

<sup>12</sup> Internal Revenue Service, *Work Opportunity Tax Credit*.

<https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>.

<sup>13</sup> 26 U.S. Code § 51(d)(7)(B).

- Creates grant programs for local governments and community organizations to start, improve or grow summer and year-round youth employment programs for youth 14-24 who are homeless, in foster care, involved in the juvenile or criminal justice system, or are not enrolled in or are at risk of dropping out of an educational institution and who live in an underserved community that has faced trauma through acute or long-term exposure to substantial discrimination, historical or cultural oppression, intergenerational poverty, civil unrest, a high rate of violence, or a high rate of drug overdose mortality.

## How to Leverage Tax Credits to Create Greater Financial Stability for TAY

1. **Make permanent the expanded Earned Income Tax Credit (EITC) for young adults ages 18-24 and the Child Tax Credit (CTC) improvements from The American Rescue Plan Act (ARPA).**
2. **Continue to extend the Child and Dependent Care Tax Credit (CDCTC)**
  - a. Extension is needed until phase-in of child care and early learning entitlement program
  - b. Tailored outreach and support are needed for TAY regarding the CDCTC expanded eligibility to low- and moderate-income households and the documentation needed for access to the temporarily improved tax credit
3. **Create a Tax Counseling for Transition-Age Youth program within the IRS VITA program and fund new VITA sites.**
  - a. The IRS should create a program and materials for young adults who are under-utilizing tax credits intended to benefit them.
    - This program could be modeled after the elderly program, which offers free tax assistance to those 60+years of age and can answer questions about pensions and retirement-related issues unique to seniors.
  - b. Local VITA sites and partners would then conduct outreach to TAY with youth-friendly tax materials and provide lessons for young workers and transition-age youth in foster care.
  - c. Grant funding should be provided to each state to establish at least one VITA site with expertise on transition-age foster youth.
4. **Provide additional funding through the John H. Chafee Foster Care Program for Successful Transition to Adulthood designated for tax outreach, preparation, technical assistance and tax fraud support services.**
  - a. These additional federal funds could be used to:
    - i. Set up tax sites
    - ii. Conduct outreach activities on financial services
    - iii. Connect young people with legal partners to address identity theft
  - b. Case managers should designate an individual or entity responsible for providing tax filing assistance in a youth's case plan and be required to confirm that taxes have been filed.



## 5. Strengthen incentives for employers to hire more TAY

- a. Allow employers to receive the same WOTC amount for youth employees as they do for adult employees.
- b. Allow employers to receive WOTC for the year-round employment of youth.
- c. Add the following youth to the list of employees for whom employers can claim the WOTC:
  - i. “qualified foster care transition youth” as defined by H.R.3986
  - ii. youth 14-24 who are homeless, in foster care, involved in the juvenile or criminal justice system, or are not enrolled in or are at risk of dropping out of an educational institution and who live in an underserved community that has faced trauma through acute or long-term exposure to substantial discrimination, historical or cultural oppression, intergenerational poverty, civil unrest, a high rate of violence, or a high rate of drug overdose mortality.

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