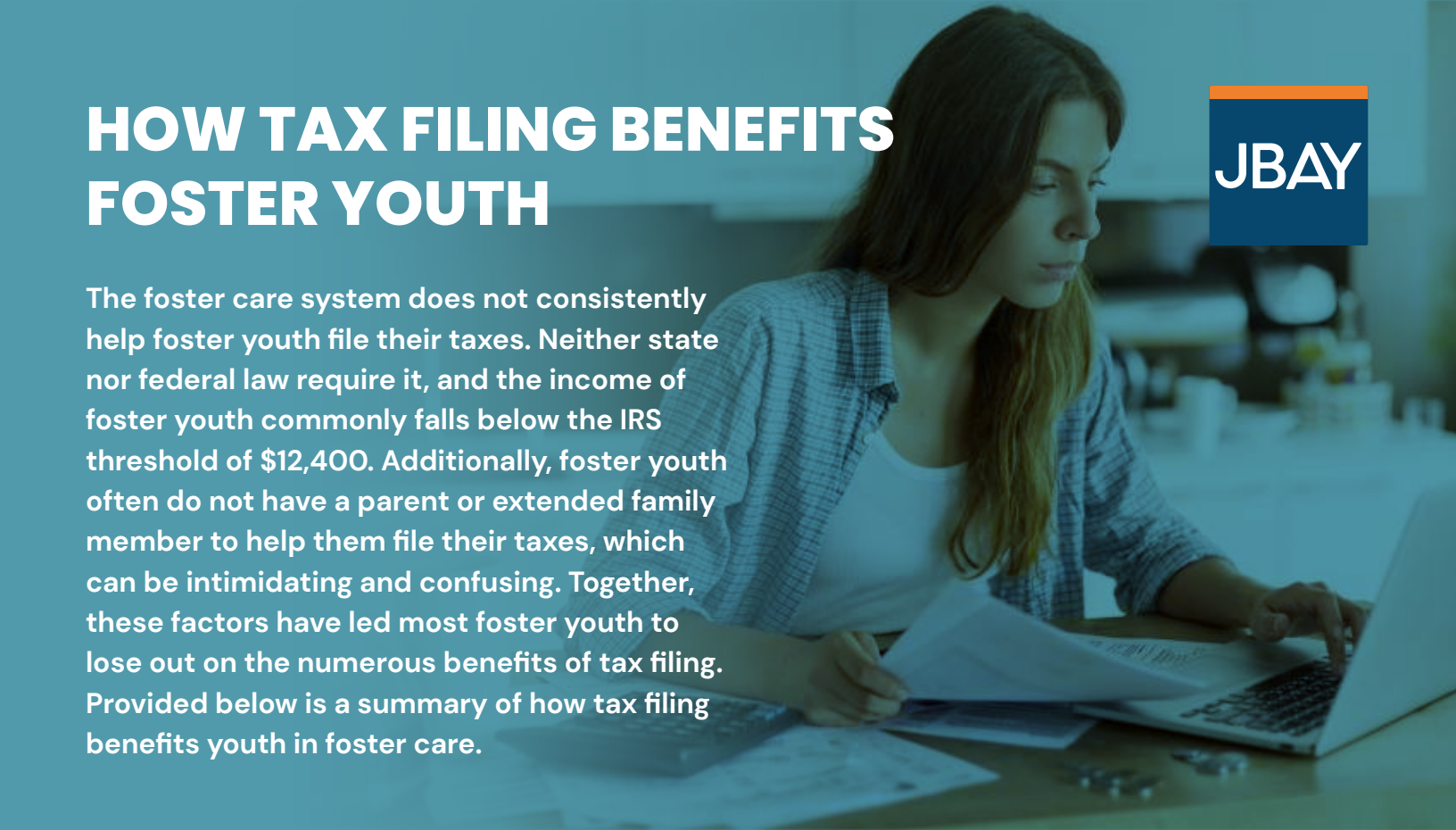


# HOW TAX FILING BENEFITS FOSTER YOUTH

The JBAY logo consists of the letters 'JBAY' in a white, sans-serif font, positioned to the right of a solid blue square. The blue square has a thin orange horizontal bar at its top edge.A young woman with long brown hair is sitting at a desk, looking at a laptop. She is wearing a light blue button-down shirt over a white tank top. There are papers and a calculator on the desk in front of her. The background is slightly blurred, showing what appears to be an office or study environment.

The foster care system does not consistently help foster youth file their taxes. Neither state nor federal law require it, and the income of foster youth commonly falls below the IRS threshold of \$12,400. Additionally, foster youth often do not have a parent or extended family member to help them file their taxes, which can be intimidating and confusing. Together, these factors have led most foster youth to lose out on the numerous benefits of tax filing. Provided below is a summary of how tax filing benefits youth in foster care.

## ✔ Decreases poverty

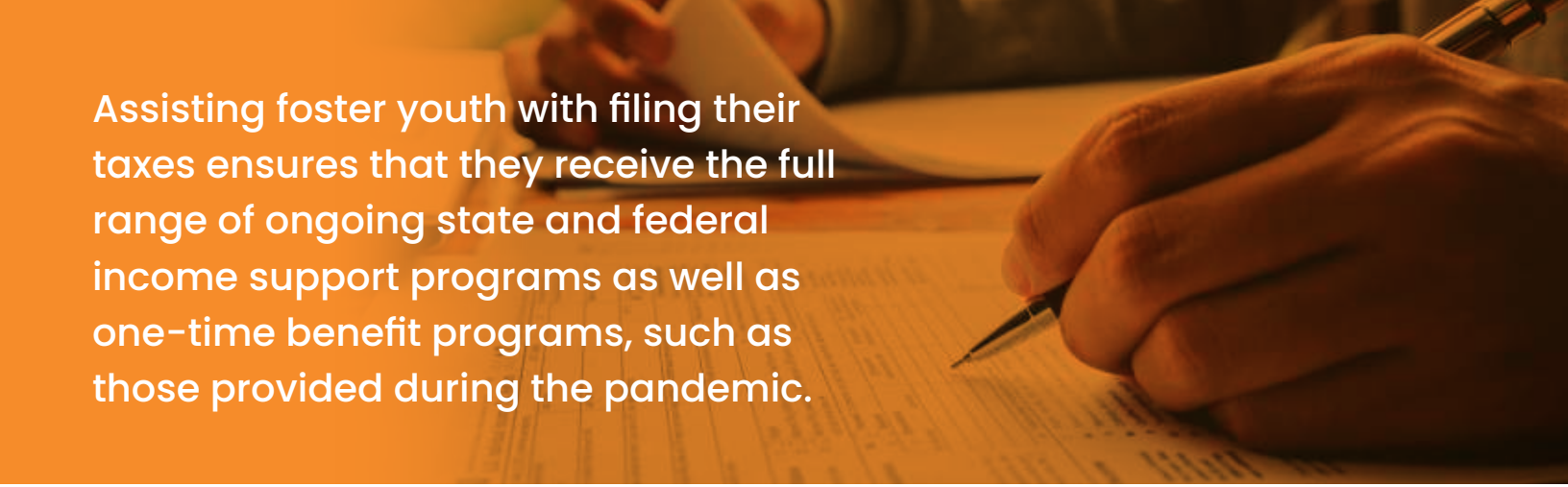
Transition-age foster youth experience high rates of unemployment—and subsequently poverty. At age 21, foster youth are less likely to work 10 hours or more per week than non-foster youth (54.0% vs 64.7%) and more likely to live below the poverty line (70.4% vs 50.9%).<sup>1</sup> Of those who worked, their average annual income was just \$11,904.<sup>2</sup> Assisting foster youth with completing their taxes provides them much-needed financial support, increasing annual income by 42% for foster youth tax filers with a dependent and 14% for single filer foster youth in a Bay Area pilot.<sup>3</sup> This income can help youth maintain their housing, school enrollment, food security and more.

## ✔ Supports children at heightened risk of maltreatment

At age 19, 20.1% of foster youth in California have become parents; this increases to age 32.2% by age 21 and 41.7% by age 23.<sup>4</sup> Children of foster youth are at a heightened risk of maltreatment.<sup>5</sup> Poverty is a key factor, with low-income children twice as likely to have a substantiated report of maltreatment by age five than non-low-income individuals.<sup>6</sup> Assisting foster youth with filing their taxes reduces this risk by moving parenting foster youth out of deep poverty and providing critically needed financial support to their children.

## ✔ Uncovers identity theft

Identity theft is common among foster youth because their personally identifying information is disseminated among larger numbers of people than youth within the general population, including foster parents, caseworkers, placement providers, and volunteers.<sup>7</sup> A 2021 report found that 15% of foster youth who filed their taxes required the use of an identity theft pin or paper filing process due to someone fraudulently claiming their tax refund.<sup>8</sup> Failure to identify and address identity theft can have long-term repercussions for foster youth as they exit foster care and establish households. By assisting foster youth with tax filing while they are still in foster care, identity theft can be uncovered and youth can be assisted.



Assisting foster youth with filing their taxes ensures that they receive the full range of ongoing state and federal income support programs as well as one-time benefit programs, such as those provided during the pandemic.

✔ **Ensures access to the range of tax benefit programs, including state and federal financial relief**

Tax filing is the means to access a wide range of programs to assist low-income individuals, including the state and federal earned income tax credits, the state renter's credit, the American Opportunity Tax Credit for college students, the state and federal child tax credits, and childcare and dependent expenses credits. In addition to these permanent tax credit programs, tax filing is also the means to access pandemic-related relief provided to lower-income residents, including the Golden State Stimulus and the federal Economic Impact Payments. A 2021 report found that 60% of foster youth had not received these relief payments because they had not filed their taxes.<sup>9</sup> Assisting foster youth with filing their taxes ensures that they receive the full range of ongoing state and federal income support programs as well as one-time benefit programs, such as those provided during the pandemic.

✔ **Prevents use of high-cost, inaccurate paid tax preparers**

A 2019 study found that 69% of people who receive the federal Earned Income Tax Credit (EITC) used a paid tax preparer, which cost an average of \$400 per return in 2016, the latest available data.<sup>10</sup> These fees equate to 13% to 20% of the low-income tax filer's return, depending on their filing status. Additionally, EITC tax filings prepared by paid preparers have a high rate of error: 94%, according to the same John's Hopkins Study.<sup>11</sup> Assisting foster youth with filing their taxes educates them about the availability of free filing resources, including both in-person and online resources, and prevents the use of unnecessary, high-cost tax preparation services, which reduce the size of their return.

✔ **Increases access to student financial aid**

All recipients of student financial aid are required to provide their tax return or provide an IRS Verification of Non-filing Letter. Financial aid is not distributed to the student until this verification is completed. For foster youth who don't file their taxes, the process of obtaining the required documentation is difficult because they are not able to complete the process online. The online process requires a credit card, mortgage, home equity loan, home equity line of credit, or car loan, which foster youth do not commonly have. Instead, foster youth must complete the paper process, which is time-consuming and error-prone. Assisting foster youth with completing their taxes will ensure that they have a tax return to provide to receive student financial aid.

### ✔ Maintains eligibility for mainstream public benefit programs

Recent years have seen a heightened interest in guaranteed income programs, with the California State Legislature establishing a \$35 million guaranteed basic income pilot for foster youth in 2021. The income earned from these programs can jeopardize eligibility for public benefits, including CalWORKs and subsidized childcare. This is particularly true for federal benefit programs, such as SSI, which require local county child welfare agencies to obtain a federal waiver to exempt income earned through the guaranteed income program. The income gained from tax filing, however, does not pose the same challenge. Public benefit programs have clearly established policies about how to treat income from tax returns, specifically tax credits. Additionally, while many universal basic income programs are in fact not universal, access to tax filing is truly universal for foster youth and is not limited by the level of funding provided or the ability to identify and recruit foster youth.

### ✔ Educates foster youth about employment practices and establishes a practice of tax filing

Through the process of filing taxes, people learn important information about employment practices that they can use to make informed decisions about their employment. For example, foster youth who receive stipends will be issued a Form 1099, which provides the amount paid to the individual. No state or federal payroll taxes have been withheld from this income, which often results in a tax liability if the youth does not know how to claim qualifying business expenses. Additionally, tax filing is an activity that is conducted throughout the entire working life of an adult, which is on average over 40 years. By helping youth correctly file their taxes in their youth or young adulthood, they can learn how to file correctly and learn about the benefits of tax filing, which will continue through their entire working adult life.

### ✔ Establishes official income for the determination of public benefits, including unemployment

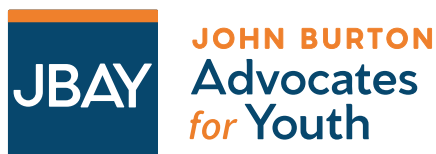
Public benefit programs, such as CalWORKs, CalFresh and other means-tested programs require an individual to provide their annual income, to determine eligibility. This is challenging when an individual has no proof of annual income. Additionally, receipt of unemployment requires proof of wages. Assisting foster youth with filing their taxes ensures that foster youth can provide documentation of their annual income and gain access to critically needed public benefit programs. This includes the California's COVID-19 Rent Relief Program, which can be a resource for the estimated 3,500 young adults in California who were authorized to remain in foster care past age 21 during the pandemic and are required to exit foster care by December 31, 2021.

## FOR MORE INFORMATION

To learn more about the importance of tax filing and efforts underway to assist foster youth file their taxes, contact JBAY Senior Project Manager Anna Johnson at [anna@jbay.org](mailto:anna@jbay.org) or visit [jbay.org](http://jbay.org).

## ENDNOTES

- 1 Courtney, M. E., Okpych, N. J., Park, K., Harty, J., Feng, H., Torres–Garcia, A., & Sayed, S. (2018). Findings from the California Youth Transitions to Adulthood Study (CalYOUTH): Conditions of youth at age 21. Chicago, IL: Chapin Hall at the University of Chicago.
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- 3 Money in the Pocket During the Pandemic, John Burton Advocates for Youth, August 2021.
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- 5 Eastman, A. L., & Putnam–Hornstein, E. (2019). An examination of child protective service involvement among children born to mothers in foster care. *Child Abuse & Neglect*, 88, 317–325.
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