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The transition from adolescence to young adulthood can be a time of opportunity and promise, as young people who have the supports they need to smoothly make this transition can gather knowledge, experience, and skills to become independent. As the fallout from the COVID-19 pandemic continues to affect families nationwide, now more than ever young people with low incomes face significant barriers to stability and mobility, such as high rates of poverty, employment instability, and disconnection from both school and work (Parker, Minkin, and Bennett 2020; Aaronson and Alba 2020; Lewis 2020). To finish school and training and get connected to a successful pathway, young people must be able to meet their basic needs for food, shelter, cash, and health care.

This brief is part of a series focused on how well major federal safety net programs serve young people—defined as those ages 14 to 24. The series pays special attention to young people who live independently. Information was obtained from literature and interviews with safety net and youth policy experts as well as youth-serving practitioners.

This brief focuses on the circumstances under which young people ages 14 to 24 are able to access the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), the major federal tax credits available for young people, and what is known about these credits’ effectiveness for this population. It is an initial exploration of issues relevant to young people, based on a quick review of literature and conversations with experts. Though we focus on information relevant to young people, it may be useful to other age groups as well.
Key Takeaways

- **Adequate income is an essential part of stability for young people**, as well as people of all ages.
- Research shows that **young adults face the highest poverty rates** of any age group in the US, leading to a host of other challenges in ensuring they can meet their basic needs for food, housing, and health care.
- **Refundable tax credits**, which provide the full value of a credit to tax filers regardless of the amount of taxes they owe, can **play a vital role in providing additional cash** to the working parents of young people and to young working parents, improving well-being in the short and long terms for both themselves and their children. Because nonrefundable tax credits can only reduce the taxpayer’s taxes owed, they have little effect on taxpayers who owe little or no taxes.
- Fully or partially refundable tax credits such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are **available to targeted populations**. Credits are higher for workers with low incomes who have children.
- Tax credits generally are **unavailable or limited for independent young people who are not working parents**.
- Annually, a **meaningful share of credits go unclaimed**. Young people may be unfamiliar with filing taxes or unaware that they can get a credit. Further, they are likely to have employment and earning patterns that can make filing taxes more difficult, including part-time or irregular work, multiple jobs, self-employment, cash payments, or tips.
- **Key actions to better support adolescents and young adults** through the tax system would include the following:
  » making tax credits more equitable across young people of different ages and regardless of if they are parents or not;
  » reducing the complexity of documentation required to file taxes; and
  » conducting targeted outreach to young people and providing free tax preparers to help them access benefits for which they are eligible.

What Are Tax Credits, and What Roles Do They Play in Meeting Young People’s Needs?

Adequate income for purchasing necessities is an essential part of stability for young people, as well as for people of all ages. Adolescents and young adults face the highest poverty rates of any age group in the US (Hawkins 2019). This reality in turn leads to significant challenges for young people, including food insecurity, inadequate housing, and difficulty affording health care. Although poverty rates were high even before the pandemic, this age group now faces historic unemployment levels, leading to even greater challenges. A recent study estimates that youth unemployment rates (ages 16 to 19) increased
more than 20 percent because of the pandemic, with even higher increases among young Black and Latinx workers and young workers with lower levels of education (Parker, Minkin, and Bennett 2020). Further, this age group has been particularly affected by the pandemic in other ways, with 18- to 29-year-olds reporting the highest levels of trouble paying bills, meeting rent or mortgage payments, and losing health insurance (Aaronson and Alba 2020).

Tax credits can play a vital role in providing additional cash to families of young people living with their parents as well as to young working parents, improving well-being in the short and long terms for both themselves and their children. Research shows not only that expanding the EITC could reduce poverty for children and young people, but also that larger EITC payments increase the likelihood that young people graduate from high school and attend college. Though tax credits can provide vital cash to young people, the value of tax credits to people with lower incomes depends on whether the tax credit is refundable. A nonrefundable tax credit can only reduce the taxpayer’s taxes owed and therefore has little effect on taxpayers whose tax liability is very low or at zero. In contrast, a taxpayer with low or no income will get the full amount of a refundable credit returned to them even if the credit’s size is greater than their tax liability.

Adolescents and young adults have numerous federal tax credits they or their families could benefit from, depending on their circumstances. This brief focuses on the two most commonly claimed tax credits—the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC).

- **The EITC** is a fully refundable tax credit available to workers who are parents and earn low to moderate incomes, and at a significantly lower level, to workers ages 25 to 64 without children living at home. The EITC benefit amount varies depending on the taxpayer’s income and the number of children they have. In the 2019 tax year, more than 25 million eligible tax filers received almost $63 billion in federal EITC, with the average tax filer receiving $2,476. In addition, numerous states have state EITCs that can be applied to state taxes, which are typically a share of the federal credit amount. The EITC is concentrated among the lowest earners, with almost all of the credit going to households in the bottom 60 percent of the income distribution.

- **The CTC** is a partially refundable tax credit (the refundable portion is sometimes called the Additional Child Tax Credit—ACTC) available to taxpayers who have children younger than 17. Although the full tax credit is $2,000, taxpayers with lower levels of tax liability can receive up to $1,400 as a refund. Families with dependents ages 17 to 18 or ages 19 to 24 and in school full time for at least five months a year can qualify for a smaller, nonrefundable $500 credit. An estimated 9 out of 10 families with children will receive an average CTC of $2,380 in 2020. Although a wide range of income groups benefit, families with the lowest incomes are the least likely to benefit from the CTC because they do not have enough earnings to be eligible for the refundable credit or enough tax liability to receive the full credit. Just under three-quarters of families in the lowest income quintile (the bottom one-fifth of the income distribution, ranked by household income) will be eligible for a CTC in 2020 and will receive an average benefit of
$1,280. A small but growing number of states also offer state CTCs, which are based on a range of formulas.

Although relatively little research exists specifically on the effects of either tax credit on young people ages 14 to 24, a significant body of research exists about the EITC that finds it is effective at reducing family poverty, encouraging work, helping families meet their basic needs, and promoting positive longer-term effects on health and educational attainment. It also can support financial stability and disproportionately benefits women of color and Black and Latinx households. Research on the CTC has found it promotes work, reduces poverty, and supports child development.

BOX 1

Characteristics of Young People

Although adolescence is a time of great strength and tremendous potential for growth, many characteristics of young people heighten their need for assistance while also creating challenges for obtaining and keeping support from safety net programs.

Brain Development

Adolescence is a time when young people learn about and adapt to the world around them. It is a time of significant brain development but still a time when critical cognitive skills that affect decisionmaking are not fully developed. Young people are more likely to engage in exploratory behaviors that involve taking risks, which can be positive ways to explore the world when in a supportive environment, but in other situations can lead to criminal legal system involvement and other adverse outcomes that make it difficult for young people to achieve stable employment or access safety net programs. Young people also have a developmental need to feel accepted, which means they may be easily discouraged from applying for safety net programs after having a negative experience with a caseworker. This need can also mean that stigmas attached to specific benefit programs may persuade them not to apply.

Complex and Dynamic Family Relationships

Family relationships can be much more complex than accounted for in safety net policies, making it hard for young people to meet requirements. Young people may have more than one home or family they connect to; they may live with relatives other than their parents; they may be in and out of their family home; or they may have become estranged from their parents because of abuse or conflict over gender identity or sexual orientation (Samuels et al. 2019). Each of these realities can create challenges for their ability to meet program requirements that assume a simpler family situation.

Poverty

Young adults face the highest poverty rates of any age group. The spike in poverty among people ages 18 to 24 is apparent not only when measured using the official poverty measure but is even more pronounced when using the supplemental poverty measure, which considers necessary expenses and receipt of public benefits. Although official pandemic-era poverty rates are not yet available, other indicators of hardship suggest that youth poverty rates have risen since the pandemic began (Giannarelli, Wheaton, and Acs 2020). Poverty rates are especially high among young parents and young people with a history of child welfare and criminal legal system involvement. Black and Latinx young people also experience higher rates of poverty than their white peers, reflecting the effects of structural racism.
Employment Instability

Adolescents and young adults face greater challenges in the labor market than somewhat older adults. Young people ages 18 to 24 made up roughly a quarter of the low-wage workforce before the crisis, and an outsized share worked in the gig economy (Ross and Bateman 2019). Young people ages 16 to 24 had higher unemployment rates than adults ages 25 to 44 before the pandemic (9 percent compared with 4 percent), and they remained higher as of August 2020 (14 percent compared with 8 percent). During the pandemic, the labor market prospects of adolescents and young adults (ages 16 to 29) have been particularly hard hit, in part because young people were more likely to be employed by industries most negatively affected by the pandemic. Black and Latinx young people as well as young people with lower levels of education experienced the greatest losses. Employment instability can make it more challenging for young people to comply with program rules that require them to report any changes in income, and temporary increases in income can make them ineligible when they still need help.

Housing Instability

Residential mobility is highest among young people ages 20 to 29, with almost one in four moving within the past year. In addition, roughly 1 in 30 adolescents ages 13 to 17 and 1 in 10 young adults ages 18 to 25 experience homelessness each year. Housing insecurity is likely to have risen since the pandemic began (Samuels et al. 2019; Lake 2020). Youth housing instability makes it harder to provide proof of residency for safety net programs or to communicate with benefit administrators through mail and indicate a permanent address on applications.

Inexperience with Bureaucracy

Young people may not know about safety net programs and may be even less likely than other adults to have the experience and ability to navigate the notoriously challenging logistical and paperwork demands of accessing and maintaining safety net benefits, including completing lengthy forms, meeting scheduled appointments, or accessing personal documents like a Social Security card or medical records. Young people may also experience difficulty navigating paper forms often required to apply for programs, which they are less likely to have experience interacting with than older adults.

Sources: Conversations with youth-serving practitioners and other experts. Aaronson and Alba 2020; Parker, Minkin and Bennett 2020; National Academies 2019.

Challenges and Opportunities for Young People in Accessing Tax Credits

To assess how well tax credits meet the needs of young people, it is useful to examine three questions: Are young people eligible and under what circumstances? How well do the benefits and services meet young people’s needs? How easy is it for young people to get and keep these services? Each of these questions is examined below.

Are Young People Eligible and Under What Circumstances?

**ELIGIBILITY OPPORTUNITIES FOR YOUNG PEOPLE**

- Both the EITC and CTC are available to support working families that have minors still living with them at home, as well as to support working young parents. 14
- A smaller EITC is available to workers ages 25 to 64 without children living at home (often called “childless” for tax purposes).

**ELIGIBILITY GAPS FOR YOUNG PEOPLE**

Some gaps exist in the extent to which young people are eligible for these supports (Maag, Peters, and Edelstein 2016).

- Young people must have earned income of at least $1 for the EITC and of at least $2,500 to claim the refundable CTC, which means that unemployed or underemployed young adults may be ineligible for, or receive less than the full benefit of, the credits. 15
- Childless adults under 25 generally do not qualify for EITC, based on Congress’s assumption that young people this age were attending college and graduate school and could rely on their families for support. The exclusion of childless adults younger than 25 means that EITC benefits are not available to some groups of young people who are working but facing significant challenges, 16 such as the following:
  - **Young people aging out of foster care who are working but do not have children.** Research suggests that young people aging out of foster care only earn a fraction of what is earned by their peers—specifically, by age 24, they have earned between a half and a quarter of the earnings of other young people. These young people are unlikely to have familial support and face a host of challenges, including financial instability and material hardship (Gilchrist, Sheridan, and Srolestar 2015).
  - **Young people from families with low incomes who are working while attending college but do not have children.** Research suggests that college completion rates are higher for students from families with low incomes if they have access to more cash, as these funds can help them pay for expenses such as books or rent that can otherwise make it difficult for them to graduate (Manoli and Turner 2018).
Taxpayers can only receive the CTC for children with a Social Security number who are citizens, nationals, or residents. EITC rules require everyone in the household to have a Social Security number that is valid for employment.

COVID-19 EFFECTS ON ELIGIBILITY AND ACCESS

Under the Coronavirus Aid Relief and Economic Security (CARES) Act that Congress passed to provide relief from hardship because of COVID-19, families and individuals with incomes below certain limits are eligible for economic impact payments of up to $1,200 for individuals, $2,400 for married couples, and $500 for each qualifying child. The subsequent relief package made all adults and children in households below the same income limits eligible for an additional $600 payment. This most recent bill also allows families who saw a drop in their income in 2020 that would reduce the size of their tax credits avoid this by choosing to receive the EITC and CTC based on their 2019 income. Children faced the same qualification restrictions as they do to receive the CTC, including being under 17 and having a Social Security number. These restrictions excluded millions of young people, including immigrant children, older children, and college students who are tax dependents from receiving aid (Marr et al. 2020).

People who do not file taxes were least likely to receive economic impact payments because they needed to provide information to the IRS to receive the payments, whereas tax filers have typically provided the necessary information already. Childless adults with incomes low enough that they are not required to file taxes are less likely to file because there are few tax credits available to them, meaning this group probably missed out on payments at relatively high rates despite having substantial need for financial assistance.

How Well Do the Credits Meet Young People’s Needs?

Although it is challenging to determine the adequacy of a tax credit, both the EITC and CTC credit levels differ in the amounts they give to young people across various groups.

- **EITC benefits are low for childless adults.** Childless adults ages 25 to 64 receive a much smaller benefit than workers who have children, and younger childless adults are left out entirely. A 2016 study found that because of the benefit’s inadequacy, childless adult workers are the only group of workers the federal tax system effectively pushes into or deeper into poverty. As a result experts have called for both raising the benefit level and making it available to childless adults younger than 25.

- **CTC benefits are low for families with the lowest incomes.** As noted above, families with the lowest incomes are the least likely to benefit from the CTC because they do not have enough earnings and tax liability to be eligible for the full credit. Families must earn at least $2,500 to qualify for a refund from the CTC. Further, because the CTC is only partially refundable, these families are limited to getting only $1,400 rather than the $2,000 that families with higher incomes can access.
How Easy Is It for Young People to Receive Tax Credits?

According to our interviews with experts and practitioners, on-the-ground experience suggests there are many barriers to young people receiving tax credits as the head of household. Not all eligible taxpayers claim tax credits. Only about 80 percent of eligible taxpayers claim the EITC each year. Though tax credit access can be challenging for people of all ages, there are several ways the credits and the tax system are not designed to reflect the complex realities and characteristics of young people’s lives, their developmental stage, or their strengths (see box 1 for more information on the characteristics of young people). Although no data exist on the extent to which young people claim the credit, the realities and characteristics of young people likely make it more challenging for them to access tax credits; such challenges may arise because of the following:

- **They may not have to file taxes** because of their low earnings or may not be familiar with filing taxes.
- **They may be unaware that they qualify for these tax credits** or that they could get free tax preparation assistance.
- Even if they are aware of the tax credits, eligibility can be complicated and vary from year to year, meaning expectations for what benefits will be annually can be unclear and lead to confusion.
- Young people are more likely to have earnings that are more complicated to report for tax purposes, including income that is from part-time employment or self-employment, is paid in cash or involves tips, or comes from multiple jobs.
- Young people may not have access to the documentation and information they need, including their own paperwork and Social Security card as well as tax documents from their employers, particularly given the jobs young people often have. Personal paperwork can be particularly challenging for young people who have left home and may not have close relationships with their families.

What Role Does Structural Racism Play in Tax Credits?

Structural racism appears in tax policies in several ways, including the following:

- The minimum age requirement of 25 for childless workers to receive the EITC is **based on the assumption that young adults receive familial support in their transition to adulthood**, which is untrue for many and disproportionately unlikely for young people of color. These young people are more likely to have grown up in poverty, and Black and Native American young people are disproportionately likely to have been involved in the foster care system. In general, they have fewer resources from their families on average (Annie E. Casey Foundation 2020; Child Welfare Information Gateway 2016). The lack of cash assistance in the form of a refundable tax credit is therefore particularly harmful for this group.
Evidence also exists that eligible Latinx families receive the EITC at lower rates than white and Black families, which may result from communication barriers that make it more difficult for this population to understand their eligibility (Thomson et al. 2020).

Research also suggests that Black and Hispanic families are more likely than white families to miss out on receiving the full CTC amount because of insufficient earnings to receive the full nonrefundable share of the credit (Collyer, Harris, and Wimer 2019).

On the other hand, the EITC and the refundable portion of the CTC play important roles in advancing racial and ethnic equity. They provide supplemental income to families of color, who are overrepresented in jobs that pay low wages and who experience various forms of labor market discrimination that leave them with lower wages than white workers. This support has had significant benefits for these families’ economic security, health, and economic outcomes (Kleiman, Matsui, and Mitchell 2019; Marr et al. 2015).

Areas for Further Research

Although there have been some analyses of adolescents and young adults and the tax system, we still need to understand a great deal more to ensure the tax code is more effective in supporting young people in their transition to adulthood. Some questions that would be useful to explore include the following:

- What share of young people miss out on tax credits because they do not know they exist, fail to file their taxes, or do not understand the system?
- Are there ways to structure or simplify taxes for this age group to make it easier for them to claim these credits, particularly given the complexity and volatility of their employment patterns?
- Are there ways to structure how tax credits are paid to make them more supportive of young people’s needs? For example, what are the pros and cons of paying annually or more frequently?
- How do structural inequities affect which young people can access tax credits? Are there policies limiting access that have differential effects by race or ethnicity?

Action Steps

The current safety net is not designed to support young people’s needs. We urgently need an intentional and comprehensive approach to supporting them in meeting their basic needs so they can capitalize on the inherent strengths of this stage of life and enter adulthood in a position to thrive and build stronger communities.

For example, policymakers could consider making changes to federal tax credits that include the following:
making tax credit amounts more equitable across different age groups, student statuses, and for filers who are or are not parents, taking into consideration the realities and economic challenges these young people face

- reducing the complexity of documentation required to prove eligibility for credits
- targeting tax credit outreach efforts and tax preparation assistance campaigns to young workers; this effort could build on the IRS’s annual EITC awareness day effort

Notes


2 Several studies have found a consistent positive impact of larger EITC payments on children’s and adolescents’ education outcomes (NASEM 2019). For example, Maxfield (2013) found that larger EITC payments increase the odds of young people in families with low incomes graduating from high school and completing one or more years of college by age 19. Similarly, Manoli and Turner (2018) found that more generous EITC payments lead to a greater number of young people in families with low incomes attending college. Further expanding the EITC could decrease child poverty rates by up to 2.1 percent, lifting 1.5 million children and young people out of poverty, according to the Reducing Child Poverty report (NASEM 2019).


10 Note that these projections were made before the COVID-19 crisis began and actual numbers may differ.

11 “State Tax Credits,” Tax Credits for Workers and Their Families, 2019, http://www.taxcreditsforworkersandfamilies.org/state-tax-credits/#1468434105770-44f9c6c5-52e0.


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