



Building Futures Through Education

NATIONAL ASSOCIATION
FOR THE EDUCATION OF
HOMELESS CHILDREN
AND YOUTH

Income tax and the FAFSA for Unaccompanied Homeless Youth

How does a youth's decision to file a tax return affect the FAFSA?

The obligation and/or choice to file a tax return is completely separate from the FAFSA. For the FAFSA, youth should simply answer question 33 (and, if necessary, questions 34-38) truthfully. Also, the answer to question 33 should have no effect on the answers to Step Three of the FAFSA, in particular questions 58-60. Again, youth should answer those questions honestly and seek the appropriate verification.

Are youth required to file tax returns?

Youth should file tax returns if they are required by the tax code to do so, or if they want a refund of taxes withheld by their employers. The IRS has an on-line questionnaire to help youth determine if they need to file a tax return, available at <http://www.irs.gov/individuals/article/0,,id=96623,00.html>.

Many youth will not owe taxes, due to the level of their income. However, youth who worked and had taxes withheld from their wages may choose to file a return to obtain a refund of the taxes withheld, even if they will not owe taxes. In addition, youth age 25 or older, or youth of any age who have children of their own, may be eligible for the Earned Income Tax Credit, which could significantly increase their tax refund (even if they owe no taxes).ⁱ Finally, youth did not receive the Stimulus Payment offered in 2008 (roughly \$300, depending on the situation), either because they were not eligible or did not file a tax return, may be eligible for that payment if they file taxes this year.

What should an unaccompanied youth do if his/her parents claim him/her as a dependent on their tax returns?

Tax fraud is a crime, punishable by financial penalties and, in serious cases, imprisonment. A parent's decision to claim a youth as a dependent reflects on the parent; the parent may be subject to penalties for unlawfully claiming a youth as a dependent.ⁱⁱ The parent's actions should not subject the youth to penalties, as long as the youth is abiding by the tax laws applicable to his or her own income and does not personally benefit from the parent's unlawful actions. Examples of the youth benefiting from the fraud might include: the parent pays the youth a sum of money not to report the violation; or the parent pays the youth part of the tax refund the parent received by claiming the youth as a dependent, in exchange for the youth "playing along," and the youth knows the refund was obtained fraudulently.

Although the IRS offers some financial incentives to individuals who report tax fraud, there is no legal obligation for a youth to report a parent's tax fraud. Therefore, a youth may choose to report his or her parent's fraudulent claiming of the youth as a dependent, or the youth may simply ignore it.

How to Complete the FAFSA

<i>Tax filing status</i>	<i>Question 33</i>	Questions 58-60
Youth filed or will file on own behalf; Parents did not claim youth as dependent.	Mark a or b, whichever is true.	If youth meets unaccompanied homeless youth (UY) definition, mark “Yes” to the appropriate question, based on who will provide verification; do not report any parental income (Skip FASA Step Four entirely); work on getting a verification letter from MV liaison or HUD or RHYA shelter director.
Youth filed or will file on own behalf; Parents also claimed youth as dependent.	Mark a or b, whichever is true.	If youth meets UY definition, mark “Yes” to the appropriate question, based on who will provide verification; do not report any parental income (Skip FASA Step Four entirely); work on getting a verification letter from MV liaison or HUD or RHYA shelter director. If the IRS makes the connection between UY status and parents claiming youth as dependent, the verification letter will be key for youth’s defense; parents may be subject to penalties.
Youth did not and will not file; Parents did not claim youth as dependent.	Mark c, skip to question 39.	If youth meets UY definition, mark “Yes” to the appropriate question, based on who will provide verification; do not report any parental income (Skip FASA Step Four entirely); work on getting a verification letter from MV liaison or HUD or RHYA shelter director.
Youth did not and will not file; Parents claimed youth as dependent.	Mark c, skip to question 39.	If youth meets UY definition, mark “Yes” to the appropriate question, based on who will provide verification; do not report any parental income (Skip FASA Step Four entirely); work on getting a verification letter from MV liaison or HUD or RHYA shelter director. In the unlikely event that IRS makes the connection between UY status and parents claiming youth as dependent, the verification letter will be key for youth’s defense; parents may be subject to penalties.

February 2009

ⁱ A Q&A on the Earned Income Tax Credit is on-line at <http://www.irs.gov/individuals/article/0,,id=96466,00.html#QA2>. An eligibility worksheet is available at <http://apps.irs.gov/app/eitc2008/SetLanguage.do?lang=en>.

ⁱⁱ For a parent to claim a youth as his/her dependent, the youth must meet **all five** of the following criteria:

1. Relationship: son, daughter, stepchild, foster child, or a descendant (for example, your grandchild) of any of them; or brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant (for example, your niece or nephew) of any of them.
2. Age: youth must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.
3. Residency: youth must have lived with parent for more than half of the year (with an exception for temporary absences due to illness, education, work, vacation, or military service).
4. Support: youth must not have provided more than half of his or her own support for the year.
5. Special test for qualifying child of more than one person (only applies if more than one person legally can claim the youth as a dependent).