

# MAXIMIZING THE IMPACT OF DIRECT CASH TRANSFERS TO YOUNG PEOPLE

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## Policy Toolkit





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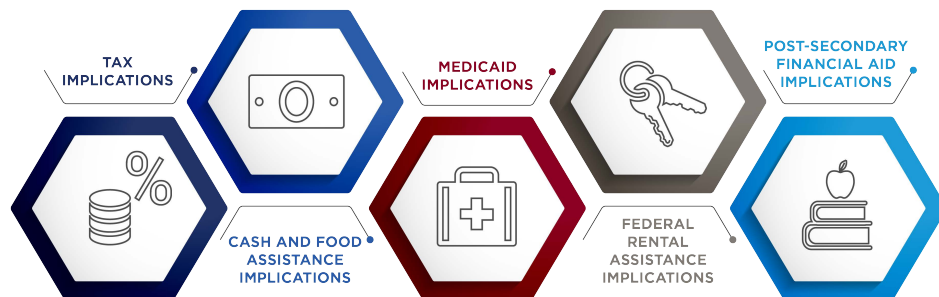
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## NAVIGATING DIRECT CASH TRANSFERS, TAXES AND PUBLIC BENEFITS FOR YOUTH AND YOUNG ADULTS



**Youth homelessness in the United States is pervasive, with young people of color disproportionately affected. Negative outcomes for young people who experience housing instability are copious and well-documented—from early pregnancy, to suicidality, to physical and mental health problems. Current programs are falling short of achieving population-level impacts on preventing and reducing youth homelessness. Increasingly, jurisdictions across the country are looking to Direct Cash Transfer programs as a possible solution.**

Chapin Hall at the University of Chicago, national partners, and young adults with lived expertise are working with multiple jurisdictions across the country to develop and evaluate unconditional direct cash transfer (DCT) programs. These programs have optional supportive services for addressing young adult homelessness, supporting young people's pathways to thriving, and advancing racial equity (see Box 1 for a definition of DCTs). These efforts will produce unprecedented evidence to inform policy and practice to support ending youth and young adult homelessness, advance racial equity, and help young people realize their full potential.

Yet, to achieve systemic and sustainable solutions, jurisdictions must navigate designing DCT pilots and programs in the broader context of complex policies related to taxes, public benefits, and postsecondary financial assistance. These forms of assistance play increasingly important roles in young people's lives, particularly given inflation, rising housing costs, stagnated wages and the effects of the COVID-19 pandemic. Understanding the tax and public benefit policies with which DCT programs interact will not only result in maximizing the benefits of DCTs for participants, but also in avoiding unintentional harm to their broader social safety net. Chapin Hall has found that virtually all jurisdictions across the country are grappling with similar questions and confronting similar hurdles--all in the face of urgent problems and a need to disburse cash transfers effectively and rapidly.

With support from the Annie E. Casey Foundation, Chapin Hall collaborated with subject matter experts from across the country to provide timely analysis and recommendations for designing and implementing DCT programs to minimize risks and maximize benefits to young people and families. While this toolkit primarily focuses on young adults experiencing homelessness or housing instability, the analysis and recommendations can also inform broader DCT initiatives for other populations who depend on means-tested<sup>1</sup> programs or public benefits. Ultimately, this toolkit contributes to a growing body of policy research on how DCT interventions interact within—and ultimately help to improve—a broader *system* of care for youth and families.

<sup>1</sup> Means-tested programs limit eligibility to individuals and families whose incomes and assets fall below a predetermined threshold (means test).

## BOX 1. WHAT ARE DIRECT CASH TRANSFERS (DCTS)?

A DCT program is any intervention that provides money directly to individuals in the form of unrestricted payments. As such, DCTs differ from many other types of social programs that make payments to landlords, businesses, or organizations on someone's behalf. Examples of those programs include: a housing subsidy paid by another entity to a landlord or a tuition scholarship paid by another entity to an institution of higher education; a restricted form of payment, such as a food voucher or electronic payment card for food purchases only; or a grant or payment to an organization or institution to deliver services. By contrast, direct cash transfer payments can be made in any way that a person can receive money. This includes by check, giving cash, making a direct deposit or wire transfer to a bank account, using a prepaid debit card, or electronic mobile payments. Different DCT programs use different payment approaches.

Direct cash transfer programs might involve one-off lump-sum payments or regularized payments over time, such as biweekly or monthly payments. They might make payments conditional on certain behaviors or actions ("conditional cash transfers") or place no conditions on the participant ("unconditional cash transfers"). Some DCT programs are described as a "labeled cash transfer" program, meaning they are named or messaged for a specific purpose, but recipients still receive them as unrestricted payments.

A guaranteed income or basic income program offers DCTs unconditionally and theoretically at a certain amount determined sufficient to allow recipients to meet their general basic needs or some level of their basic needs. A universal basic income (UBI)—a concept recently re-popularized in the American public—is a type of DCT program that is extended to everyone in a population without means testing and with no strings attached (Bidadanure, 2019). Not all DCT programs are designed to provide a guaranteed or basic income for general basic needs, including the DCT program designed specifically for addressing young adult homelessness described in this Introduction.

## BACKGROUND

### Youth homelessness is a broad and hidden challenge requiring bolder policy actions with the potential for population level impact.

An estimated 1 in 10 young adults experiences homelessness in the United States in a year (Morton, Dworsky, Matjasko, et al., 2018). Consistent with the federal Runaway and Homeless Youth Act's definition, this prevalence includes various forms of homelessness, including staying in shelters, sleeping in the streets or other places not meant for human habitation, or couch surfing or staying temporarily with others due to a lack of a safe and stable place to stay.<sup>2</sup> Prevalence of this scale, translating to approximately 3.5 million young adults experiencing some form of homelessness on a yearly basis, requires much bolder policy actions and interventions that could have an impact at the population level, an impact greater than that of status quo programs and public investments.

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<sup>2</sup> Notably, some federal programs, particularly those funded by the U.S. Department of Housing and Urban Development (HUD), use a narrower definition of homelessness for eligibility purposes, which does not include couch surfing or doubling up as homelessness.

**Young adulthood represents a key developmental period of our lives, critical to personality and socio-emotional development and to the acquisition of skills, education, and experiences that foster positive transitions to adulthood**

## **Homelessness is marked by stark disparities rooted in legacies of racism and exclusion.**

Youth of color—especially American Indian and Alaska Native, Black, multiracial, and Hispanic youth—have significantly higher homelessness prevalence compared to their White non-Hispanic peers. Data also show that young people identifying as lesbian, gay, bisexual, transgender, or queer (LGBTQ) face a 120% increased risk for homelessness compared to young people identifying as heterosexual and cisgender (Morton, Samuels, et al., 2018). The intersection of different marginalized identities compounds inequities among youth experiencing homelessness. Young people who identify as both Black and LGBTQ have four times the prevalence of homelessness compared to their peers who identify as White, heterosexual, and cisgender (Morton, Samuels, et al., 2018). Pregnant and parenting young adults and those who have been involved in public systems like child welfare and juvenile justice also have increased risk of facing homelessness (Dworsky et al., 2018; Morton, Dworsky, Samuels, & Patel, 2018c).

**The human and systems toll of youth homelessness is high.** Research has linked a range of negative health outcomes to homelessness among young people, including, but not limited to, physical and mental health problems, early pregnancy, suicidality, and early death (Morton, Dworsky, Matjasko, et al., 2018). Youth homelessness is also a major pathway into older adult homelessness, underscoring the importance of early intervention during these critical years (Chamberlain & Johnson, 2013; Funk et al., 2022; Oppenheimer et al., 2016). Young adulthood represents a key developmental period of our lives, critical to personality and socio-emotional development and to the acquisition of skills, education, and experiences that foster positive transitions to adulthood (Casey et al., 2019; Kull et al., 2022; Roberts & Davis, 2016). Young people experiencing homelessness, however, have to focus critical time and energy on survival and coping with related trauma and adversities. This can have long-term negative implications for their health and well-being (Kull et al., 2022).

## **Current homelessness systems and programs are falling short of achieving population-level impacts on preventing and reducing youth homelessness.**

One analysis of homelessness systems data from 10 diverse communities found that only one-third of youth and young adults who enter local homelessness systems ever get placed into a permanent housing program and that those who get housed wait lengthy period (4.5 months on average; Morton et al., 2018). Only 2% of households (about 46,500 households) that receive vouchers are headed by a young adult between the ages of 18 and 24 years old (U.S. Department of Housing and Urban Development). Very little research has studied effectiveness or implementation of housing vouchers with youth and young adults. The limited literature on the subject indicates that even when young people manage to secure a housing voucher, they frequently face the insurmountable challenge of finding landlords who will accept their voucher, especially in tight housing markets where landlords have little incentive to do so (Chesnut et al., 2021). Other housing programs available to young people experiencing homelessness are primarily crisis driven rather than choice driven, and there is little evidence that existing program models help young people achieve and sustain safe and stable housing (Morton, Rice, et al., 2018).

Because DCTs put resources directly into the hands of young people, **they could enable young people to exit homelessness faster and more cost-efficiently** than other programs that require more administration and physical infrastructure.

**Against this backdrop, DCTs with youth-driven supportive services offer a promising solution.** Unlike many of the existing program models, this is a solution that young people with lived expertise have themselves lifted up as the kind of solution they would like made available (Morton et al., 2020). Cash transfers offer trust and agency to young people, in contrast to biases and paternalism that young people often confront in social service settings. Because DCTs put resources directly into the hands of young people, they could enable young people to exit homelessness faster and more cost-efficiently than other programs that require more administration and physical infrastructure. Using DCTs as an efficient tool for a housing purpose is not new, even for our government. For example, uniformed members of the military receive a basic allowance for housing provided in the form of an unrestricted allowance to support their housing needs when government housing is not available or provided (U.S. Department of Defense). This housing allowance gives individuals and families the freedom to find housing that works best for them.

**Direct cash transfers can help offset (but certainly do not erase) racial and other inequities in young people's access to economic resources during their transitions to adulthood for basic needs like housing.** Direct financial assistance to young people is not new or radical in our society. Young adults receive significant sums of financial assistance, but largely informally and inequitably. One analysis found that American parents collectively give their young adult children \$500 billion a year in financial assistance (Merrill Lynch, 2020). Yet, research shows large racial and ethnic disparities in parental financial transfers due to structural inequalities in the form of economic resources, family structure, and health (Berry, 2006). Direct cash transfers also offer maximum housing choice (Kerman, 2021). While a benefit broadly for people experiencing homelessness, this degree of choice means that young people, such as LGBTQ+ youth and youth of color, who commonly face discrimination and disadvantage in shelters and restricted housing programs can use DCTs to pursue housing solutions that work best for them.

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# DIRECT CASH TRANSFERS: A ROBUST EVIDENCE-BASED PRACTICE

**Against a backdrop of stagnant real wages, rising inflation, the global COVID-19 pandemic, and astronomical rent and housing prices, unconditional DCTs have re-emerged as a promising tool.** Cash transfer programs are designed in many ways and with various objectives. They can vary by payment structure (one-time or regular), conditionality, payment type, and population. They can range from universal to targeted—and even a targeted universalism (Powell et al., 2019). Some place restrictions on how the cash is used, while others allow the individual to decide how they use the cash. Some cash transfers are reactive and are meant to buffer or lessen a shock, while others are meant to build wealth, provide a proactive safety net, or meet basic needs. What is true across all cash transfer programs is that they are not a silver bullet for solving all problems. Rather, they are a tool that, when centered on clear and concise objectives and aligned with a broader system of care, can have an important and positive impact on a range of outcomes.

**Direct cash transfer programs are supported by a vast international evidence base** (Baird et al., 2013). Globally, they are among the most well-evaluated interventions for addressing poverty, boosting well-being, increasing educational attainment, and improving health outcomes and employment (Baird et al., 2013; Pega et al., 2017). In the U.S. and Canada, numerous programs offer examples of how DCTs have reduced childhood obesity, improved health outcomes, reduced hospitalization rates, increased savings, and supported economic security. These include the maintenance income experiments of the late 1960s in Denver, Seattle, New Jersey, Iowa, and Indiana, the Canadian ‘Mincome’ Experiment, and the ongoing Alaska Permanent Fund Dividend (Forget, 2011; Guettabi, 2019; Office of the Assistant Secretary for Planning and Evaluation, 1983).

**Counter to common public narratives, numerous studies show that offering DCTs to people experiencing poverty and adversity do not result in money poorly spent, increased substance use, or reduced motivation to work** (Evans & Popova, 2017; Morton et al., 2020). Instead, cash is primarily spent on basic needs—food, utilities, other goods—as evidenced in the early report on the Stockton Economic Empowerment Demonstration (West et al., 2020). The Child Tax Credit further illuminated that regular unconditional cash contributes to reductions in food insecurity and overall poverty (Parolin et al., 2022; Shafer et al., 2022). Furthermore, in Canada, a randomized trial of DCTs to adults experiencing homelessness also found improvements in the speed of exiting homelessness, reductions in the amount of time spent in homelessness, and reductions in spending on alcohol, cigarettes, and drugs among DCT program participants (Foundations for Social Change, 2020).



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# A YOUTH-CENTERED, YOUTH-DRIVEN SOLUTION

**While DCT programs have shown positive results across a range of studies and contexts, they have never been specifically designed and evaluated with and for young adults experiencing homelessness or as a solution to reducing youth homelessness and bolstering young people’s pathways to thriving.**

In 2019, a collaborative team from Chapin Hall and Point Source Youth developed the first project based on an intensive research and multi-stakeholder design process in collaboration with young people with lived expertise to do just that (Morton et al., 2020). This process resulted in the Trust Youth Initiative, a pilot Cash Plus intervention model for young adults experiencing homelessness (see Box 2 for a description). New York City began implementing and evaluating the Trust Youth Initiative in 2022, and several other jurisdictions across the country are now planning or considering implementing and evaluating similar pilots as part of a multisite evaluation and learning cohort. The 2019 research and multi-stakeholder design process led to the following key conclusions about how to develop an effective DCT program for young adults experiencing homelessness:

**Center the program on youth, equity, and trust.** The program should focus on youth needs and preferences, particularly Black, Indigenous, and People of Color (BIPOC) and LGBTQ youth who face discrimination and exclusion through existing systems.

**Boost housing stability and empowerment.** The program will support youth to sustainably exit homelessness and get on paths of their choosing that lead to thriving. This objective should inform the cash transfer amount, duration, and optional supportive programming.

**Adopt a flexible and simple approach.** Youth experiencing homelessness have diverse needs, preferences, and circumstances. The program should allow youth to choose between different payment mechanisms and supportive programming options to facilitate better results for youth in diverse situations. At the same time, providing simple, integrated delivery systems and youth support teams makes the program easier and more efficient to implement.

**Identify and manage barriers to success.** While common concerns about risks to giving money to people living in poverty do not play out, certain design and support decisions can reduce the risk of rare adverse events and can help mitigate the potential of losing other public benefits or facing costly tax implications.

The DCT program will support youth to sustainably exit homelessness and get on paths of their choosing that lead to thriving

## BOX 2. CASH PLUS MODEL: THE TRUST YOUTH INITIATIVE

A “cash plus” model provides unconditional direct cash transfers (“cash”) along with connections to optional complementary supports and services (“plus”). The “cash plus” approach is common in cash transfer programs internationally and recognizes that individuals often face both financial and nonfinancial barriers to positive outcomes. In the Trust Youth Initiative pilot program, the Cash Plus program is specifically designed for addressing young adult homelessness and improving pathways to thriving.

For the “cash” component, participants receive a cash amount large enough to support a housing outcome, with regularized twice-a-month payments providing housing stability over time. They can also receive a one-time larger payment to support an exit from homelessness or coping with a housing crisis, such as paying for first or last month’s rent, a security deposit, furniture, or paying of arrears.

For the “plus” component, a local community-based organization (CBO) provides optional supportive programming tailored to the needs and goals of young people. The CBO provides counseling, coaching, and peer support, housing navigation, financial coaching, and warm handoffs to existing programs and services for education/career development, behavioral health needs, and other housing and public benefits programs. During the co-design process, the coupling of optional complementary programming and service connections alongside cash transfers was determined to be important to addressing nonmonetary barriers to housing stability and human capital development.

## ACCOUNTING FOR TAX OBLIGATIONS, PUBLIC ASSISTANCE BENEFITS, AND POSTSECONDARY FINANCIAL ASSISTANCE

**This policy toolkit responds directly to the fourth conclusion described above on effective practices to designing a DCT program for addressing youth homelessness: identify and manage barriers to success.** If designers and funders of DCT programs fail to account for and mitigate risks of DCT program participation with respect to young people’s tax obligations, public assistance benefits, and postsecondary education financial assistance, they could fail to address major barriers to the programs’ success. In some instances, they might even cause harm. Direct cash transfer programs do not exist in vacuums. They inherently interact with means-tested programs and benefits that count people’s income as a basis for determining eligibility.

**Without certain programmatic design and policy actions, DCT payments could push young people’s income (or their household’s income) over eligibility limits for certain programs or benefits—in other words, they could experience a “benefits cliff”** (Baker et al., 2020). Ultimately, this could erode the net benefit of the program and possibly produce new forms of inequality—or worse, retraumatize a young person amidst their daily struggle for survival (Baker et al., 2020). Any changes to an individual’s income, even in the form of a gift or a one-time grant, could trigger the reduction or loss of other benefits. Additional income through DCTs may also impact income taxes if programs are not designed carefully. Whether and how DCT payments are regarded as income for the purposes of determining eligibility for these programs and benefits have direct implications for young people’s social safety net, ability to meet their basic needs, financial decision making, and access to resources for their educational goals. Additional income through DCTs may also impact income taxes if not designed carefully.

**For youth and young adults facing multiple adversities, they often rely on a fragmented patchwork of public programs and benefits to help them meet their basic needs and pursue their goals.** Common federal and state public means-tested benefits and health insurance that young adults experiencing homelessness might rely on include Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and the Supplemental Program for Women, Infants and Children (WIC). All of these programs can provide an important level of economic and food security needed to meet basic needs like food, clothing, housing, and utilities. In 2020, 21.8% of all young adults in the U.S. were enrolled in Medicaid, 9.7% were receiving SNAP, 1.4% were receiving WIC, and 0.5% were receiving TANF (U.S. Census Bureau, 2020).

**For many young people experiencing homelessness, accessing some of these public benefits is challenging since many require proof of employment or of searching for work to receive the benefit.** For young people without a secure place to live, and oftentimes without the means to purchase clothing or food, searching for employment or holding a job can be difficult. Even when young people can work and access these benefits, they do not enable someone to achieve safe and stable housing. Arguably, these benefits are needed in tandem with additional, more flexible supports like unconditional DCTs to support their housing or other needs. Therefore, DCTs should be offered in a way that supplements rather than replaces other public assistance benefits. This will allow young people to maximize the resources available to them to address their holistic needs during a key developmental period.

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## HOW WE DEVELOPED THIS POLICY TOOLKIT

To produce this toolkit, authors and collaborators closely examined the interaction of DCTs with means-tested federal public benefits and health insurance, as well as implications for taxes and postsecondary financial assistance. Through this toolkit, they also provide concrete recommendations to help state and local jurisdictions develop DCT projects for youth and young adults in ways that maximize their positive outcomes while minimizing risks to participants.

**Chapin Hall engaged subject matter experts throughout the country on each of the topics this toolkit addresses.** They carefully researched existing means-tested federal public benefits policies and programs, tax codes, and postsecondary financial aid to gain a better understanding of the programmatic and policy implications for DCT participants. Experts presented initial findings in an interactive webinar series that took place over a few months, allowing for an exchange among young adults, practitioners, and policymakers about the hurdles they were facing in designing and implementing direct cash transfer programs. Experts took this feedback and integrated it into each of the individual papers that make up the toolkit. Each authored section of the toolkit was peer reviewed by experts in the field for accuracy and relevance. Peer reviewers included academics, policymakers, practitioners, and young adults with lived experience of homelessness.

**We view this toolkit as a living document, which we intend to update as regulatory and revenue codes are updated, and as we continue to learn, to ensure that jurisdictions have the most up-to-date and relevant information.** The conclusion of this toolkit provides a high-level summary of the findings and recommendations, while also proposing DCTs as a tool for exploring reimagined support for young people experiencing homelessness.

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# Direct Cash Transfers and Tax Policy

Reporting cash transfers for  
maximum benefit to the recipients

Jacqueline Lainez Flanagan<sup>1</sup> | November 2022



Unconditional direct cash transfers (DCTs) are supported by a vast national and international evidence base. They have been shown to have a positive impact on health outcomes, school attendance, child development, household spending, and poverty reduction (Morton et. al., 2020). For young people experiencing homelessness or housing instability, DCTs offer a promising approach for moving swiftly to safe, permanent housing and starting on pathways to independence. While a DCT can be an important source of support and financial safety net, there is currently no express exemption from income for DCTs, potentially impacting a young person's tax burden. Ultimately, this could erode the net benefit of a pilot program and possibly produce new forms of inequality (Baker et al., 2020).

Currently, several cities and counties throughout the U.S. are considering DCTs as an intervention to end youth homelessness. Many are designing these interventions as a cash gift, structured so that the regular cash payment from a nonprofit to a young person experiencing homelessness proceeds from "detached and disinterested generosity" and "out of. . . charity or like impulses" (*Commissioner v. Duberstein*, 1960; Kahn, 2018).<sup>2</sup> This paper analyzes this interpretation and current income exclusions in the tax code analogous to DCTs. There is not an explicit tax code section that directly addresses the tax treatment of DCTs. However, existing exemptions from income provide a framework for supporting the exclusion of DCTs from gross income, so long as the payments are not compensation for services, and are distributed out of detached, disinterested generosity to address a recipient's financial need. Ideally, express federal and state legislative guidance will be forthcoming to direct revenue agencies, DCT providers, and fund recipients how unconditional DCTs should be treated.

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<sup>2</sup> The transferor's (donor's) intent is an important factor in considering whether a transfer is a gift.



**The general tax implications of narrowly tailored direct cash transfers should be considered by DCT programs, mindful that fund recipients may need to seek professional tax advice about how to proceed absent broad revenue agency guidance.**

## **HIGHLIGHTS:**

- Payments made by nonprofits providing no strings attached DCT funds to young people experiencing homelessness should be characterized as need-based financial benefits excluded from taxable income. This reflects existing tax law, including American Rescue Plan Act aid, disaster relief payments, low-income tax credits, cash payments that qualify as gifts, and public benefit programs like Temporary Assistance for Needy Families (TANF).
- However, under current federal tax laws, there is no express guidance from the IRS stating DCTs can categorically be excluded from income.
- Federal and state tax agencies need to provide guidance specifically addressing the tax treatment of DCTs. This will offer DCT recipients, program funders, and program administrators greater certainty. The guidance should include whether DCTs should be categorically excluded from income as gifts or whether they otherwise qualify for exclusion and exemption from recognition as income.
- DCT programs seeking to exclude DCTs from income should develop best practices in disseminating DCT funds. For example, administrators should ensure that payments to DCT recipients are distributed out of detached, disinterested generosity and not as compensation for services rendered. When in doubt about any related tax responsibilities, DCT programs should seek professional tax guidance and include disclaimers advising DCT recipients to seek professional tax advice for case-specific tax counseling.

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## **ABSTRACT**

To maximize the benefit of DCT programs across the country, federal and state legislatures and revenue agencies should provide express guidance regarding the exclusion of DCT payments from calculations of gross income. While existing codified exclusions to income indicate these payments qualify for exclusion based on the charitable nature of the funds—and should not constitute taxable income to recipients—no express tax guidance currently exists. American Rescue Plan economic relief funds, nontaxable gifts, need-based tax credits, and other current income-exempt economic stimulus payments provide guidance indicating DCTs are not taxable. Federal and state revenue agencies, legislators, and policymakers should use this guidance to develop nontaxable direct cash transfer guidelines. Until express guidance is available, direct cash transfer recipients and program administrators should consult with appropriate tax professionals and revenue agencies to ensure they are complying with all applicable state and federal tax requirements.



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# INTRODUCTION

This paper presents research related to the growth of direct cash transfer (DCT) programs in the United States, isolating the following key tax issues: Direct cash transfers, specifically to young people aged 18 to 24 experiencing homelessness, should not constitute taxable income as long as the payments are not compensation for services and are distributed out of detached, disinterested generosity. The general tax implications of narrowly tailored direct cash transfers should be considered by DCT programs, mindful that fund recipients may need to seek professional tax advice about how to proceed absent broad revenue agency guidance.

There is currently no direct guidance from the Internal Revenue Service (IRS) or states regarding the tax treatment of direct cash transfers. As such, there is no guidance concerning the tax implications of such transfers for recipients, funders, and organizations administering the payments. This white paper provides a better understanding of how direct cash transfers might be treated under the current tax code and analyzes how different factors could potentially affect the tax treatment of these payments.

Unconditional DCTs based on financial need should not constitute taxable income to recipients due to the charitable intent of the funds. However, DCT funds are currently not expressly excluded from being recognized as income. An express exclusion from income would allow a recipient of DCT funds based on need to not report the funds as income, thus shielding the funds from potential taxation. The only current tax exemption, at the federal level, is where the DCT funds otherwise qualify for a preexisting exclusion (for example, where American Rescue Plan COVID-19 relief funds are distributed as a DCT). Some states, such as California, are beginning to pass legislation exempting precisely defined guaranteed income for specific populations (for example, transitioning and parenting youth) from income recognition for tax purposes. This legislation has not yet specifically named DCTs.<sup>3</sup> Illinois has expressly exempted *cash transfers* from affecting other public benefits but has stopped short of directing the tax treatment of DCTs (Act to Amend the Social Service Law, 2022; Illinois Public Aid Code, 2019).

According to the current U.S. tax code certain aid payments—namely aid payments by the government, charitable organizations, and private entities—are not recognized as income. These existing exclusions provide the basis for the recommendation that state and federal revenue agencies should expressly exclude unconditional DCT funds from taxable income as long as they serve a charitable purpose and are not compensation for services (in other words, they are not disguised wages).

Unconditional DCTs, essentially by definition, are designed and intended to provide financial assistance to those in need. Thus, existing taxable income exclusions in the U.S. tax code, intended to alleviate poverty and promote self-sufficiency, provide the guidance and framework for potential best practices moving forward. This white paper appeals for certainty regarding the tax treatment of unconditional direct cash transfers that serve a quasi-governmental public good. It concludes with recommendations to maximize the impact of these payments and reduce potential associated tax burdens.

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<sup>3</sup> See California Budget 2022–2023, excluding “any payments received by an individual from a guaranteed income pilot program or project from the gross income of recipients for personal income tax purposes” until July 1, 2026, <https://www.ebudget.ca.gov>

## WHAT ARE DIRECT CASH TRANSFERS?

DCT programs pay a fixed amount of money directly to individuals in need of financial assistance, typically without conditions or restrictions dictating how the funds may be spent (Innovations for Poverty Action, n.d.). DCT programs have been successful internationally and range from one-time lump sum payments to periodic payments for a specified duration (Chowdhury et al., 2022). They are paid in the form of cash or check through various payment methods (direct deposit, electronic, or prepaid debit card, among others) rather than a voucher.

## U.S.-BASED DIRECT CASH TRANSFER PILOTS

DCT programs, including pilot programs and related research studies, are currently launching across the United States (Morton et al., 2020). Dictated by growing inequities and in part as a response to the disparate impact of the COVID-19 pandemic, several U.S. cities initiated direct cash transfer programs and pilots. The target population of most direct cash transfer pilots and demonstration projects in the U.S. includes the working poor, those experiencing homelessness, individuals disproportionately impacted by the ongoing COVID-19 pandemic, and families struggling with any of these issues. For example, in 2019 the city of Stockton, California launched the Stockton Economic Empowerment Demonstration (SEED) program that provided unconditional payments of \$500 each month for 24 months to 125 randomly selected households in ZIP codes with area-level income under the median of \$46,033. SEED published the results of their program, which demonstrated improvement in the lives of recipients across several categories. New York City announced their Trust Youth Initiative during the summer of 2021. The first phase of the project would distribute unconditional direct cash transfers of about \$1,100 per month for up to 2 years to young people between the ages of 18 and 24 experiencing homelessness to invest in themselves and their housing (Chapin Hall, 2021). In Washington, DC, the Greater Washington Community Foundation distributed \$26 million to 60,000 residents in the metro DC area to address the economic repercussions of the COVID-19 pandemic. Funds were given in increments between \$50 and \$2,500. A particular focus of the distribution was those without a financial safety net, including undocumented people, frontline essential workers, and returning citizens.

Many of the current pilots and demonstration projects in the U.S. distribute unconditional direct cash transfers to recipients in the form of a cash gift, specifically emanating from “detached and disinterested generosity. . . out of affection, respect, admiration, charity or like impulses” (*Commissioner v. Duberstein*, 1960). Absent express guidance from federal and state tax agencies on the treatment of DCT funds, the following section provides a general overview of U.S. taxation and exclusions from income determination that support the treatment of DCTs as a cash gift.

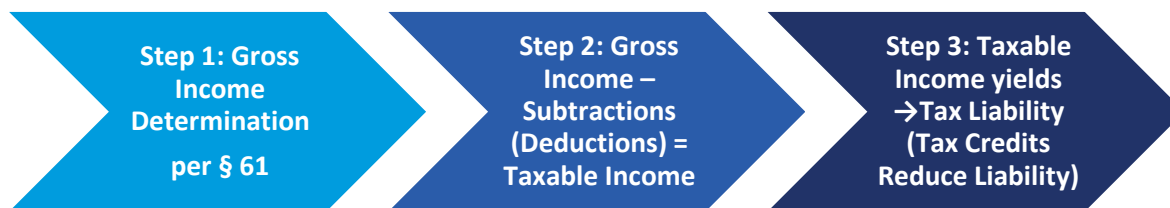
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## OVERVIEW OF TAXATION IN THE U.S.

### TAXABLE INCOME AND EXCLUSION FROM INCOME DETERMINATION

The Internal Revenue Code (“IRC” or “Code”) is comprised of existing tax laws outlining, inter alia, when taxpayers must pay federal income tax on their taxable income. The “taxable income” computation begins with the identification of a taxpayer’s “gross income” (described below). The Code sets forth various deductions or subtractions from gross income to arrive at a taxpayer’s “taxable income.” Income tax liability is then determined using IRS tax tables. After federal income tax liability is determined, applicable tax credits can reduce taxes owed.

**Figure 1. Determination of Taxable Income and Tax Liability**



The Internal Revenue Service (IRS) is responsible for administering federal tax laws codified in the IRC and for collecting taxes in the United States. The IRC provides a broad definition of gross income in section 61, stating, “Except as otherwise provided. . . gross income means all income from whatever source derived” (Gross Income Defined, n.d.).<sup>4</sup>

While this general definition does not address the question of what specifically counts as income, there are 14 examples of income included in this code section, including compensation for services; monetary gains from business or property, rents, royalties; and pension income. Another standard to evaluate a taxable gain, or whether something qualifies as gross income is the mandate to include “all accessions to wealth, whether realized in the form of cash, property or other economic benefit” (Montemurro, 2016).

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## CURRENT EXCLUSIONS FROM INCOME

Currently, there is no express exclusion in the tax code for DCTs. DCT parameters—including the intent behind the payments and the financial need of recipients—are important considerations when determining whether these funds should qualify for exclusion from taxable income. To help address the tax question of whether a direct cash transfer (DCT) should constitute taxable income to a recipient, the following existing exclusions from income provide helpful comparisons.

### PRIVATE GIFT EXCLUSION UNDER IRC 102(A)

Congress makes policy choices surrounding how, when, and what to tax, and it has made several exceptions to taxable gross income, including certain gifts and scholarships.<sup>5</sup> For example, gifts of money, services, and personal property<sup>6</sup> can be excluded from individual income and treated as non-taxable if they qualify under the U.S. tax code gift exclusion (General Income Defined, n.d.; Kahn, 2018).<sup>7</sup> Section 102(a) states a gift “must proceed from a

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<sup>4</sup>Including (but not limited to) the following items: (1) compensation for services, including fees, commissions, fringe benefits, and similar items; (2) gross income derived from business; (3) gains derived from dealings in property; (4) interest; (5) rents; (6) royalties; (7) dividends; (8) annuities; (9) income from life insurance and endowment contracts; (10) pensions; (11) income from discharge of indebtedness; (12) distributive share of partnership gross income; (13) income in respect of a decedent; and (14) income from an interest in an estate or trust.

<sup>5</sup> Another example of nontaxable income, besides gifts, are qualified transfers of funds from educational organizations (i.e., a scholarship). 26 U.S.C. § 2503(e)(1). “The term “qualified transfer” means any amount paid on behalf of an individual as tuition to an educational organization described in section 170(b)(1)(A)(ii) for the education or training of such individual.” 26 U.S.C. § 2503 (e)(2)(A). An educational organization is defined as one “which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.” 26 U.S.C. § 170(b)(1)(A)(ii).

<sup>6</sup> Gifts can be goods: money, personal property (e.g., a car), or real property (e.g., a parcel of land). Gifts can also be services (e.g., a car wash).

<sup>7</sup> “The [gift] exclusion insures [sic] that there is a single income tax for a single consumption.” However, the act of gifting “does not constitute consumption.” *Id.*

detached and disinterested generosity,' . . . 'out of affection, respect, admiration, charity or like impulses.'" Otherwise, the gift is treated like income for the recipient and potentially taxable.



### Box 1. IRS Guidance Regarding Gifts

"Generally, the person who receives a gift or bequest of property from an estate won't have to pay any federal gift tax or estate tax. Also, that person won't have to pay income tax on the value of the gift or inheritance received."

A "gift" is defined by the IRS as "any transfer to an individual, either directly or indirectly, where full consideration (measured in money or money's worth) is not received in return." Furthermore, "the donor is generally responsible for paying the gift tax."

*(Internal Revenue Service, 2022d; Internal Revenue Service, 2021e, p. 24)*

## COVID-19 RELIEF FUNDS: AMERICAN RESCUE PLAN OF 2021

Coronavirus State and Local Fiscal Recovery Funds were established under the American Rescue Plan Act (ARP SLFR Funds), providing eligible state and local governments funding to respond to pandemic-related needs (Internal Revenue Service, 2021a). Importantly, the IRS recently issued guidance noting SLFR Funds do not constitute taxable income to recipients. However, caution should be exercised in relying on the information; currently it is only available in a frequently asked question (FAQ) format, not as formal published guidance.<sup>8</sup>

## GOVERNMENT-BASED DISASTER RELIEF: SEC. 139 OF THE INTERNAL REVENUE SERVICE CODE

Government funds disbursed to address the impacts of COVID-19 generally categorically qualify as nontaxable disaster relief payments under section 139 of the Internal Revenue Service Code. Disaster relief declarations are generally issued by FEMA or by presidential decree and incorporate situations ranging from severe weather events to breaches in national security (Internal Revenue Service, n.d.-a; see Box 2).

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at 190. "The exclusion of gifts is supported the optimum-utility-of-consumption and single-taxable-unit concepts. On the flip side, the taxation of gifts is supported by the principle that gifts represent an accretion of wealth that the donee will use to consume resources at some point. The issue is whether one principle must always triumph over the other. Congress chose to exclude gifts from income, and so it would seem that as long as the *Duberstein* standard is met, the gift must be excluded." *Id.* at 192.

<sup>8</sup> "Because these FAQs have not been published in the Internal Revenue Bulletin, they will not be relied on or used by the IRS to resolve a case. Similarly, if an FAQ turns out to be an inaccurate statement of the law as applied to a particular taxpayer's case, the law will control the taxpayer's tax liability. Nonetheless, a taxpayer who reasonably and in good faith relies on these FAQs will not be subject to a penalty that provides a reasonable cause standard for relief, including a negligence penalty or other accuracy-related penalty, to the extent that reliance results in an underpayment of tax. Any later updates or modifications to these FAQs will be dated to enable taxpayers to confirm the date on which any changes to the FAQs were made. Additionally, prior versions of these FAQs will be maintained on IRS.gov to ensure that taxpayers, who may have relied on a prior version, can locate that version if they later need to do so (Internal Revenue Service, n.d.-a).



## Box 2. IRS Guidance for American Rescue Plan Act Coronavirus State, and Local Recovery Funds

“The Coronavirus State and Local Fiscal Recovery Funds (SLFR Funds) provide eligible state and local governments with a substantial infusion of funds to meet pandemic response needs and rebuild a stronger and more equitable economy as the country recovers. The SLFR Funds provide substantial flexibility for each government to meet local needs—including support for households and individuals hardest hit by the crisis. . .

*“Some uses of SLFR Funds may trigger tax consequences. In general, individuals must include in gross income any payment or accession to wealth from any source unless an exclusion applies. One exclusion is for qualified disaster relief payments under section 139 of the Internal Revenue Code (Code). Under section 139 of the Code, certain payments made by a state or local government to individuals in connection with the COVID-19 pandemic may be qualified disaster relief payments that are *excluded* from the recipient’s gross income.*

*“A payment by a state or local government generally will be treated as a qualified disaster relief payment under section 139 if the payment is made to or ‘for the benefit of’ an individual to:*

- (1) reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster, or
- (2) promote the general welfare in connection with a qualified disaster. See section 139(b)(1) and (4).

As a federally declared disaster, the COVID-19 pandemic is considered a qualified disaster for purposes of section 139(c). However, payments are not treated as qualified disaster relief payments if the payments are in the nature of compensation for services performed by the individual” (Internal Revenue Service, 2021a).

### EXCLUSION FROM INCOME: SEC. 6409

Government-issued tax refunds and refundable credits have an existing carve-out in section 6409 of the Internal Revenue Code, which generally exempts these payments from recognition as income to recipients, or from affecting other federal benefits (Refunds disregarded in the administration of Federal programs and federally assisted programs, n.d.). This includes public benefits administered through the tax system covering need-based payments like the Earned Income Tax Credit (EITC), the Child Tax Credit, and Advance Child Tax Credit (Internal Revenue Service, 2022a).

### GOVERNMENT PUBLIC BENEFIT PAYMENTS: PUBLICATION 525 GUIDANCE

IRS Publication 525 notes that any federal stimulus payments or economic impact payments (EIP) are not taxable for federal income tax purposes (Internal Revenue Service, 2021b).<sup>9</sup> It also states “governmental benefit payments from a public welfare fund based upon need” are not considered taxable income and one who receives such a payment does not need to include the payment on a tax return (Internal Revenue Service, 2021b).

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<sup>9</sup> But they may impact Recovery Rebate Credit (RRC) amounts: “Emergency financial aid grants. Certain emergency financial aid grants under the CARES Act are excluded from the income of college and university students, effective for grants made after 3/26/2020. (See P.L. 116-136 and P.L. 116-260.) Economic impact payments. Any economic impact payments you received are not taxable for federal income tax purposes, but they reduce your recovery rebate credit. Other loan forgiveness under the CARES Act. Gross income does not include any amount arising from the forgiveness of certain loans, emergency Economic Injury Disaster Loan (EIDL) grants, and certain loan repayment assistance, each as provided by the CARES Act, effective for tax years ending after 3/27/2020” (Internal Revenue Service, 2021d).

## TANF AND SOCIAL BENEFIT PAYMENTS: PUBLICATION N-99-3

Social benefit programs like Temporary Assistance for Needy Families (TANF) cash payments, or targeted food subsidies like the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps, are also not considered gross income for tax purposes. Thus, the payments are not reported on a personal income tax return and are not taxed (Hoynes & Schanzenbach, 2020; Internal Revenue Service, n.d.-c; Office of Family Assistance, 2022).<sup>10</sup>

## EMERGENCY RENTAL ASSISTANCE

Emergency rental assistance is included in the social benefit payments eligible for coronavirus tax relief (American Rescue Plan Act, 2021; Consolidated Appropriation Act, 2021).<sup>11</sup> Congress enacted legislation in late 2020 and early 2021 appropriating funds to provide direct financial assistance in the form of payments related to housing, utilities, home energy bills and related costs. Shortly thereafter, the IRS issued guidance noting these payments are not included in the recipient's gross income, whether the individual received the payments directly, or whether a landlord or utility company received the payments on behalf of eligible households.



### Box 3. Gross Income Exclusion for Social Benefit Payments

“Payments by a governmental unit to an individual under a legislatively provided social benefit program for the promotion of the general welfare that are not basically for services rendered are not includible in the individual's gross income and are not wages for employment tax purposes, even if the individual is required to perform certain activities to remain eligible for the payments.”

*Internal Revenue Service, n.d.-d. Rev. Rul. 71-425, 1971-2 C.B. 76; Rev. Rul. 75-246, 1975-1 C.B. 24*

## IRS LETTER RULING – ADOPTION FEES PAID BY NONPROFITS

In 2006, the IRS issued a nonbinding private letter ruling (see text box below), which directly addressed the issue of a tax-exempt organization providing nontaxable payments to individuals.

<sup>10</sup> See Rev. Rul. 71-425, 1971-2 C.B. 76; Rev. Rul. 75-246, 1975-1 C.B. 24.

<sup>11</sup> Section 501, Division N, of the Consolidated Appropriations Act allows States and political subdivisions, U.S. territories, Indian Tribes, and the Department of Hawaiian Homelands (“Distributing Entity”) to use certain funds allocated by the Department of the Treasury to provide financial assistance to households to pay rent, utilities, home energy expenses, and other related expenses. Section 3201 of the American Rescue Plan Act of 2021 appropriates additional funds for States, political subdivisions, and U.S. territories to provide financial assistance to households to pay rent, utilities, home energy expenses, and other related expenses. Payments under either provision are referred to as “Emergency Rental Assistance” (Internal Revenue Service, 2021c).



## Box 4. Internal Revenue Service - Private Letter Rulings

"A private letter ruling, or PLR, is a written statement issued to a taxpayer that interprets and applies tax laws to the taxpayer's specific set of facts. A PLR is issued to establish with certainty the federal tax consequences of a particular transaction before the transaction is consummated or before the taxpayer's return is filed. A PLR is issued in response to a written request submitted by a taxpayer and is binding on the IRS if the taxpayer fully and accurately described the proposed transaction in the request and carries out the transaction as described. A PLR may not be relied on as precedent by other taxpayers or IRS personnel. PLRs are generally made public after all information has been removed that could identify the taxpayer to whom it was issued."

*(Internal Revenue Service, 2022b)*

In IRS Letter 2006-0027 (the Letter), the agency examined whether adoption fees provided by a nonprofit counted as gross income and could therefore be taxed (Montemurro, 2005). In particular, the letter addressed "whether payments made by a tax-exempt organization, pursuant to its purpose statement, to help individuals in need pay for the cost of an adoption are included in the individuals' gross income or subject to information reporting" (Montemurro, 2005). The letter relied on two prior Revenue Rulings in making its determination that payments made by tax-exempt organizations, pursuant to their purpose statement, may be excluded from gross income (Montemurro, 2005).<sup>12</sup>

## PAYMENTS MADE BY PRIVATE DONORS AND CROWDFUNDING PLATFORMS

Online "crowdfunding" platforms (platforms for fundraising; Luke, 2017)<sup>13</sup> have long argued that the funds raised constitute "private gifts" and therefore are not taxable for recipients (Kahn, 2018; Luke, 2017).<sup>14</sup> Generally, donations

<sup>12</sup> The first ruling relied upon considered whether a grant received by an individual from a charitable organization's disaster relief program was considered gross income. The IRS found that these types of grants are "designed to help" with distressed individuals' unreimbursed expenses that occurred "as a result of a flood." Therefore, the payments were "made out of detached and disinterested generosity rather than to fulfill any moral or legal duty." The second referenced ruling held that "in general, a payment made by a charity to an individual that responds to the individual's needs and does not proceed from any moral or legal duty, is motivated by detached and disinterested generosity." These two rulings together hold that the payments could be excluded from gross income under IRC § 102. After examining the two revenue rulings, the IRS found the payments in the revenue rulings are analogous to the adoption fees, and therefore those fees could be considered gifts, making them non-taxable. In addition, the payments need not be included in "the recipient's gross income" nor included in information reporting "if the payments are made directly to the needy individuals." Situation 2 of Rev. Rul. 2003-12, 2003-1 C.B. 283. Rev. Rul. 2003-12 also concludes that the amounts excluded from gross income under the ruling are not subject to information reporting under § 6041. Rev. Rul. 99-44, 1999-2 C.B. 549. f

<sup>13</sup> There are four different types of crowdfunding: donation-based, reward-based, equity-based, debt-based. Donation-based funding is raised without promising anything in return and is often raised for the "payment of personal necessities." Donation-based crowdfunding can be classified as "need-oriented" or "patronage oriented." "Need-oriented, donation-based crowdfunding likely fits into the 'gift' tax category." The tax treatment of "patronage-oriented" crowdfunding is less clear, but it is "more likely to be taxable income to the recipient."

<sup>14</sup> "[G]ift transfers are not included in the income of the recipient but determining whether something is a gift depends on the context, and crowdfunding presents new contextual features to consider."

solicited by charities are treated as gifts because they “provide benefits to a large number of people and play a significant role in providing for the welfare of the public”(Kahn, 2018).

In essence, donations solicited by charities “have a quasi-governmental function” (Kahn, 2018). Online crowdfunding campaigns, on the other hand, typically benefit individuals (Luke, 2017).<sup>15</sup> GoFundMe, a nonprofit, is one of the most popular online crowdfunding tools (Kahn, 2018).

Donations raised on GoFundMe are generally treated as gifts (GoFundMe, 2022).<sup>16</sup> In addition, a GoFundMe user agrees to terms and conditions that they are not providing goods or services in exchange for the donation of funds. GoFundMe does not withhold any portion of collected funds for tax purposes (GoFundMe, 2022).<sup>17</sup> However, fund recipients are expressly advised: “It is your responsibility to determine what, if any, taxes apply to the Donations you receive through your use of the Services. It is solely your responsibility to assess, collect, report or remit the correct tax, if any, to the appropriate tax authority.”

Moreover, in 2022, the IRS included additional guidance on the agency’s website stressing the importance of a case-by-case analysis to determine the tax treatment of crowdsourced funds, noting: “Contributions to crowdfunding campaigns are not necessarily a result of detached and disinterested generosity, and therefore may not be gifts. Additionally, contributions to crowdfunding campaigns by an employer to, or for the benefit of, an employee are generally includible in the employee's gross income. Taxpayers may want to consult a trusted tax professional for information and advice regarding how to treat amounts received from crowdfunding campaigns” (GoFundMe, 2022).

## **REQUIREMENT OF NO QUID PRO QUO**

“No *quid pro quo*”<sup>18</sup> requirements mean there cannot be an exchange of services or goods for the funds. GoFundMe campaigns generally qualify as gifts because fundraisers are not offering anything in exchange for the funds, meaning there is no *quid pro quo* (Kahn, 2018). As previously noted in the 102(a) gift exclusion, the person donating funds is likely contributing money based on generosity and not in exchange for a service (Taxable Gifts, n.d.). Whether the contribution is a gift depends on the totality of the circumstances; not every transfer without a *quid pro quo* necessarily constitutes a nontaxable gift.

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<sup>15</sup> “As crowdfunding continues to evolve, administrative guidance and safe harbors applying current law to the various types of projects, project creators, and project contributors would provide taxpayers with greater certainty and facilitate administration.”

<sup>16</sup> “Donations made to personal GoFundMe fundraisers are generally considered to be ‘personal gifts’ which, for the most part, are not taxed as income in the United States. Additionally, despite the organization’s nonprofit status, these donations are not tax deductible for donors.”

<sup>17</sup> “Donations made to personal GoFundMe fundraisers are generally considered to be “personal gifts” which, for the most part, are not taxed as income in the United States. Additionally, these donations are not tax deductible for donors. However, there may be case-specific instances where the income is in fact taxable for organizers. For example, if the donations are considered income to the recipient. The best way to ensure that you are in compliance with the tax laws is to maintain adequate records of donations received and consult with a tax professional.” (emphasis added; GoFundMe, 2022)

<sup>18</sup> As well as the disinterested, charitable purpose standard of gifts excluded from income (for recipients).



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# IMPLICATIONS FOR DIRECT CASH TRANSFERS

## DCT PARAMETERS - INTENT AND FINANCIAL NEED OF RECIPIENTS

Based on existing exclusions from income for gifts, government assistance such as disaster relief payments, excludable tax credits, and charitable funds disseminated by nonprofits to those in need, DCTs should be similarly exempt from recognition as taxable income.

Absent the addition of a categorical exclusion in the tax code, it would be important to consider the following when structuring a direct cash transfer program:

- The amount of the cash transfer. Under the 102(a) gift exclusion, the dollar amount of DCTs does not have implications for recipients, but for the individual giver. IRC 2503 generally outlines the amount a single person can gift to another person in one tax year (TY) and any amount over that is taxed (Taxable gifts, n.d.).<sup>19</sup> The gift amount is adjusted every year for inflation, with the limit for TY 2022 set at \$16,000 (Taxable gifts, n.d.). For any amount gifted over the yearly limit per individual, the donor is subject to taxation. In addition, there is also a lifetime limit of how much someone can gift without being taxed—about \$11.7 million in TY2021 (Internal Revenue Service, n.d.-b).
- Source of payments to youth, young adults and families. The source of the payment can be consequential for determining the taxable nature of a DCT. ARPA dollars and other federally funded payments (tax credits and public benefits) are important examples. Under current tax law, DCTs distributed by nonprofits and comprised solely of COVID-19 funds or similar economic relief previously deemed nontaxable are not counted as taxable income and are not subject to personal income tax reporting. DCT programs that combine federal, state, local, and private funds will need to decipher the appropriate tax treatment. Based on the detached, disinterested generosity standard, the source of funds—specifically, money that is pooled or combined from a variety of sources—should not affect the tax treatment of DCTs, as long as the payments are distributed out of detached, disinterested generosity and not as disguised compensation. Again, if the source of DCT funds exclusively consist of COVID-19 relief dollars, or other expressly exempted funds, based on official guidance, recipients can take possession of the funds with no federal personal income tax consequences.
- The intent behind the payment. In order to qualify for exemption from recognition as income, the intent behind the DCT is crucial. DCT programs should ensure the transfer of DCT funds are structured without a quid pro quo. The intent, terms, and conditions behind a DCT payment should make clear no services were rendered in exchange for transfer of the DCT funds to recipients. Adoption fees, disaster relief, and private donations through cash gifts and crowdfunding platforms are important examples of payments excluded from income when the intent is charitable. DCT payments should have no strings attached, including no services performed by recipients in exchange for the DCT funds.
- Financial need of recipients. Existing exclusions of income for public and social benefits and emergency rental assistance are provided to “promote the general welfare” of individuals and families. DCTs structured to promote the general welfare of individuals and families are more likely to be excluded as income.

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<sup>19</sup> “The first \$10,000 of such gifts. . . shall not. . . be included in the total amount of gifts made during such year.”

## OTHER CONSIDERATIONS AROUND DCTS AND RECIPIENT PARTICIPATION IN EVALUATIONS

It is important to distinguish between DCT payments and payments made for participation in research studies. If DCT payments are associated with direct participation in research studies, or social science evaluation programs, participation in the research could arguably be classified as a *quid pro quo* for DCTs. However, states like Illinois have proactively exempted research study payments from recognition as income for public benefit purposes, but have not addressed the relevant tax treatment of these payments (Illinois Public Aid Code, 2019). Otherwise, a pilot study approach and a full-fledged research program would be treated the same, with neither scenario altering the *quid pro quo* requirement, particularly if substantial amounts of DCT funds were tied directly to participation in the research. Conversely, *de minimis* study stipends, separate from DCT funds, would likely escape scrutiny, so long as the payments are modest and not otherwise be determined to be “disguised wages” (Internal Revenue Service, 2022c).<sup>20</sup>

Importantly, direct tax guidance from federal and state legislatures would benefit program recipients, funders, and program administrators by expressly delineating specific parameters for exclusion from income. Presently, DCT program funders, administrators, and recipients are left to extrapolate from similar, existing codified exclusions from income. While there are other instances where existing exclusions from income are either presumed, or informal but not codified, express guidance would provide greater certainty (Kratzke, 2022).<sup>21</sup>

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## CONCLUSION

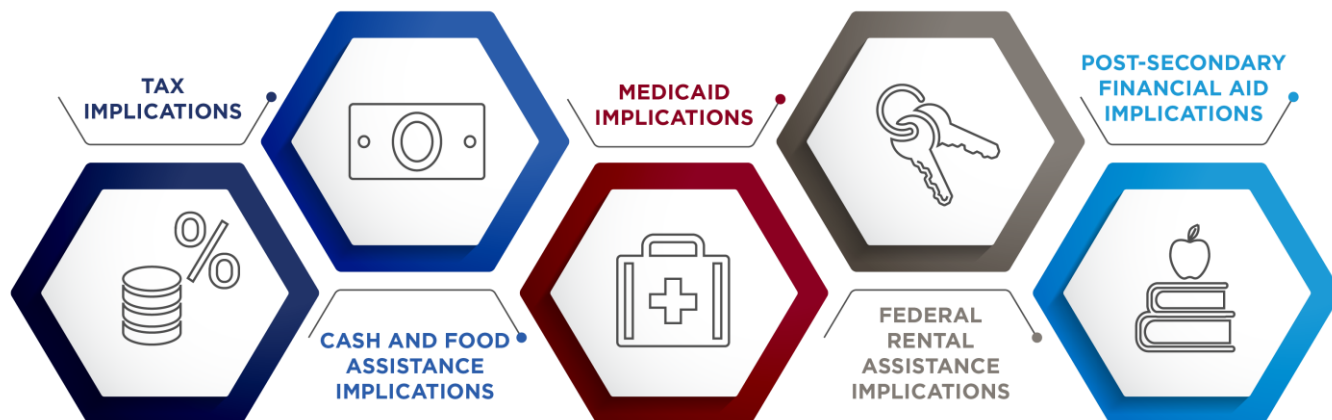
This white paper examined the potential tax implications of direct cash transfers (DCTs), funds intended to provide short-term assistance and cover basic expenses, specifically paid to families and youth experiencing homelessness. The paper emphasizes the lack of specific guidance regarding the tax treatment of direct cash transfers. Legislative and official guidance from the Internal Revenue Service, U.S. Treasury Department, and state and local revenue agencies is vital to address this information gap. Absent legislative or official revenue agency fiat expressly excluding DCTs from gross income, program administrators and DCT recipients should seek appropriate case-by-case guidance to ensure they are complying with all applicable federal and state income tax reporting requirements.

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<sup>20</sup> Case by case analyses provide greater certainty since facts can alter the tax repercussions. For example “[a]mount received by taxpayer for participating in gout study was not excluded from his gross income under [26 USCS § 104\(a\)\(2\)](#), as he did not allege that he suffered from physical injury or sickness on account of study or prove direct causal link between payment and gout he had suffered from for 25 years.” [O’Connor v. Comm’r, 104 T.C.M. \(CCH\) 571, T.C. Memo 2012-317, 104 T.C.M. \(CCH\) 571, 2012 Tax Ct. Memo LEXIS 318 \(T.C. Nov. 14, 2012\)](#), *aff’d*, [, 2015-2 U.S. Tax Cas. \(CCH\) ¶ 0364, 606 Fed. Appx. 390, 115 A.F.T.R.2d \(RIA\) 2015-2300, 2015-2 U.S. Tax Cas. \(CCH\) P50364, 2015 U.S. App. LEXIS 11241 \(9th Cir. 2015\)](#)

<sup>21</sup> “Incidentally, the Code nowhere states that loan proceeds are not included in a taxpayer’s gross income, but we all understand that to be the rule.”

The toolkit is comprised of well-researched, vetted, and user-friendly resources providing clear policy analyses and recommendations to help state and local jurisdictions develop and evaluate direct cash transfer (DCT) projects for youth and young adults in ways that maximize their positive outcomes while minimizing risks to participants.



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# Direct Cash Transfers and Cash and Food Assistance

The impact of Direct Cash Transfers on federally funded cash assistance and food assistance among young adults at risk of or experiencing homelessness

Seth Hartig<sup>1</sup> and Suma Setty<sup>2</sup> | November 2022



This brief examines how participation in direct cash transfer (DCT) pilots and programs may impact this population's eligibility and receipt of federally funded cash and food assistance.

Homelessness is the experience of living or sleeping in places not meant for long-term living, like in shelters or in the homes of others (also referred to as “couch surfing” or “doubling up”; Dworsky et al., 2019). Risk factors of homelessness include family instability, time in the foster care system, identification as Hispanic, Black, or LGBTQ+, noncompletion of high school, and the intersection of marginalized identities, such as being Black and identifying as LGBTQ+ (Berger Gonzalez et al., 2021). Systemic inequities give rise to these circumstances, the difficulty of which are compounded by other challenges such as disability, food insecurity, legal status, being pregnant or parenting, and limited access to income or financial assets, to name a few.

Federally funded cash and food assistance programs that are means-tested—meaning that they are only available to people who qualify due to their income falling below certain limits—are an important part of the U.S. safety net. Low-income youth benefit from these programs. As such, it is important for DCT administrators, DCT participants, and advocates of DCT programs to consider how DCT participation may impact the benefits these programs offer and to support informed decision making and potential policy advocacy. This paper examines how DCT receipt can impact eligibility and benefit amounts for Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), the Supplemental Nutrition Assistance Program (SNAP), the Special Nutrition Program for Women, Infants, and Children (WIC), and federally funded child nutrition programs, which include the National School Breakfast Program (SBP), National School Lunch Program (NSLP), the Summer Food Service Program (SFSP), and the Seamless Summer Option (SSO), among others. We also recommend both programmatic and policy approaches to protect cash and food assistance in ways that minimize risks and maximize benefits to young people and families.

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## HIGHLIGHTS



**Advocating for legislation or obtaining administrative rulings have proved to be effective solutions for protecting cash and food assistance that many DCT participants receive from programs that do not exempt gift income.**

- Nonprofit organizations, cities, and counties throughout the country are increasingly developing and piloting unconditional direct cash transfer (DCT) pilots and programs aimed at supporting youth and young adults experiencing homelessness.
- Program rules vary widely within cash and food assistance programs and across states regarding whether DCTs—typically classified as gift income—impact eligibility and benefit receipt.
- Categorical eligibility rules provide a potential shield against loss of certain benefits for DCT recipients.
- Current and previous DCT programs have employed effective solutions, such as advocating for legislation or obtaining administrative rulings, to protect cash and food assistance that many DCT participants receive from programs that do not exempt gift income and that are not protected through categorical eligibility.
- Despite the success of these strategies in protecting some widely used cash and food assistance benefits among DCT recipients, there is no straightforward path to protecting Supplemental Security Income (SSI) among DCT recipients when DCTs are provided to participants as gift income.
- Contributions to Achieving a Better Life Experience (ABLE) accounts, a special type of savings account available to SSI recipients, constitute a viable alternative for DCT payments that would protect SSI and nearly all other cash and food assistance that young people with disabilities and their children receive.
- Structuring DCTs as refundable tax credits is a potential long-term solution to the challenge of more comprehensively protecting benefits among DCT target populations.

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## INTRODUCTION

This paper provides an overview of federally funded means-tested cash and food assistance programs<sup>3</sup> and a discussion of important population-specific considerations within these programs. It then describes gift income rules and categorical eligibility rules, examining how these rules can offer some protection against benefit loss. Because of these potential impacts that DCTs can have on cash and food assistance among DCT recipients, it is important to understand the following:

- program rules specific to DCT target populations (discussed in Section 2);

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<sup>3</sup> Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), The Supplemental Nutrition Assistance Program (SNAP), The Special Nutrition Program for Women, Infants, and Children (WIC), and federally funded child nutrition programs, which include the National School Breakfast Program (SBP), National School Lunch Program (NSLP), the Summer Food Service Program (SFSP), and the Seamless Summer Option (SSO), among others.

- how income from DCTs is counted across these programs (discussed in Section 3);
- how special “categorical eligibility” rules can be used in certain circumstances to shield assistance from programs that count DCTs as income (discussed in Section 4); and
- strategies to protect cash and food assistance when these program rules do not necessarily prevent the loss of such assistance as a result of DCT receipt (discussed in Sections 5 and 6).

After exploring current strategies to protect cash and food assistance among DCT recipients, additional strategies are recommended to further protect these benefits. The final section offers a conclusion in the context of DCT programs within the current national policy environment. Primary recommendations include strategic approaches to safeguarding the benefits supporting DCT participants receiving SSI and the potential adoption of targeted refundable tax credits as a long-term approach to provide DCTs to young adults at risk of or experiencing homelessness.

## SECTION 1. OVERVIEW OF FEDERALLY FUNDED CASH AND FOOD ASSISTANCE PROGRAMS OF FOCUS

This section summarizes federally funded, means-tested cash and food assistance programs (not including tax credits) that are used most among young adults ages 18 to 24 at risk of or experiencing homelessness:



**A third of TANF agencies nationwide designate certain benefits or services specifically for families experiencing homelessness, and many TANF agencies partner with state-level housing departments to provide homelessness services.**

- **Temporary Assistance for Needy Families (TANF)** provides cash assistance to low-income parents, their children, and pregnant individuals. On average, about 1.8 million people received TANF cash assistance per month in 2021 (Administration for Children and Families, 2021a).
- **Supplemental Security Income (SSI)** provides cash assistance to low-income individuals who have disabilities preventing them from working full-time. As of April 2022, 7.6 million people received SSI (Social Security Administration, 2022a).
- **The Supplemental Nutrition Assistance Program (SNAP)** provides food assistance through EBT cards. In 2021, 41.5 million individuals received SNAP (U.S. Department of Food and Agriculture, 2022a).
- **The Special Nutrition Program for Women, Infants, and Children (WIC)** provides food assistance for pregnant individuals, postpartum parents, and children under age 5 through coupons for or direct provision of nutritious food items (U.S. Department of Agriculture, Food and Nutrition Service, 2019a). In 2021, 6.4 million households received WIC (U.S. Department of Agriculture, Food and Nutrition Service, 2022b).



- **Child nutrition programs**, which include the National School Breakfast Program (SBP), National School Lunch Program (NSLP), the Summer Food Service Program (SFSP), and the related Seamless Summer Option (SSO). SBP and NSLP programs provide free or reduced-price school meals to school children, while SFSP and SSO provide free meals during the summer in locations with high densities of low-income families. In FY 2019, 29.6 million children received free or reduced-price lunch via NSLP (Economic Research Service, 2022) and 14.8 million children received free or reduced-price breakfast via SBP (Economic Research Service, 2021).

Among these programs, SNAP is the most widely used and has the least restrictive nonfinancial eligibility criteria. Most low-income young adults likely satisfy these eligibility requirements, and of those eligible for SNAP, about 82% receive SNAP benefits (U.S. Department of Agriculture, Food and Nutrition Service, 2020b, 2022c). In contrast, young adults must be pregnant, parenting, in school, or have a disability to receive WIC, NSLP, SBP, TANF, or SSI.

A significant portion of young adults and people who are homeless use these programs:

- About 25% of parents in households receiving TANF are under age 25 (Hahn et al., 2021). A third of TANF agencies nationwide designate certain benefits or services specifically for families experiencing homelessness, and many TANF agencies partner with state-level housing departments to provide homelessness services (Administration for Children and Families, 2021b).
- In 2020, the last year detailed data are available, nearly 1 out of 5 SSI recipients were under 18 years of age while 5.3% were between 18 and 21 years old and 9.5% were between 22 and 29 years old (Social Security Administration, 2021a). A 2021 study found that between 2007 and 2017, about 769,000 SSI applicants could be classified as homeless (Nicholas & Hale, 2021).
- About 43% of people in households that receive SNAP are under 18 years of age (Cronquist, 2019). SNAP's excess shelter deduction, which specifically targets people experiencing housing insecurity (but who are not necessarily homeless), was claimed by approximately 70% of SNAP households in 2019. (Housing insecurity can be considered a risk factor for becoming homeless.) Unfortunately, qualitative research has shown that young adults experiencing homelessness encounter a number of barriers affecting access to SNAP, such as difficulty providing required documentation (Bowen & Irish, 2018). This may explain why, in 2019, only about 95,000 households who received SNAP benefits claimed a separate deduction specifically reserved for homeless family units<sup>4</sup> across the 27 states that allow this deduction (U.S. Department of Agriculture, Food and Nutrition Service, 2018).
- About 85% of parents receiving WIC were between 18 and 34 years old in April 2018, and about 2.5% were younger than 18 (U.S. Department of Agriculture, Food and Nutrition Service, 2020b). A 2010 study of 31 cities found that 76% of the homeless pregnant women in the study sample participated in WIC (Richards et al., 2011).
- Nationally, the number of homeless students identified by public schools—all of whom are eligible for free school breakfast and lunch—has increased each year since 2008, from 680,000 students to 1,384,000 students in 2019 (National School Boards Association, 2021).

Table 1 offers more granular descriptions of these programs, including target populations, income limits, asset limits, work requirements, what benefits each program provides, and the maximum cash value of these benefits. The information in Table 1 does not include expansions or temporary changes to these programs that occurred during the COVID-19 crisis.

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<sup>4</sup> Authors' analysis of USDA SNAP Quality Assurance data, available on the USDA website at <https://www.fns.usda.gov/resource/snap-quality-control-data>

**Table 1. Basic Eligibility Rules and Benefit Amounts for Cash and Food Assistance Programs**

Program	Target Population	Income Limits*	Asset Limits	Work Requirements	Benefits	Value of benefits
TANF	Families living in poverty with children or pregnant individuals	Varies by state and family size. The maximum allowable monthly income for a single parent of two in 2020 ranged from \$268 (Alabama) to \$2,359 (Minnesota), and the median income limit across states was \$848 (Dehry et al., 2022).	Varies by state, family size, whether household is applying for or already receiving TANF, and other factors. Recipient asset limits range from \$1,000 (in 5 states) to nonexistent (in 8 states). The median limit in states with asset limits is \$2,500. States also vary in what types of assets are included in this test, and most states exempt at least one vehicle (Dehry et al., 2022).	Can include employment, training, and job search, and vary by state, disability, age of children, and receipt of childcare subsidies. States can exempt a portion of TANF recipients from work requirements.	Monthly cash assistance. Participation is typically tied to workforce development services, and some states provide transit stipends to help cover transportation to work or training opportunities.	Maximum benefit amounts vary by state and range from \$190 (Alabama) to \$862 (New Hampshire). Across states, the median maximum monthly benefit amount is \$399 for a family of 1, \$492 for a family of 2, \$583 for a family of 3, \$663 for a family of 4, and more for larger families (Dehry et al., 2022).
SSI	People with disabling health conditions preventing them from working full time	In 2022, ~\$2,607/mo for couples and ~\$1,767/mo for individuals,** before any increases due to state supplement programs (Social Security Administration, 2021c).  State programs that supplement SSI in 21 states in 2022 effectively raise SSI income limits by a median of \$82/mo. for individuals (Social Security Administration, 2021c).	Married couples: \$3,000 Unmarried individuals: \$2,000	None	Monthly cash assistance	In 2022, up to \$1,261 for couples and up to \$841 for unmarried individuals.  State supplement programs can increase these maximum benefit amounts.
SNAP	Low-income households	SNAP has two income limits, a “gross income limit” based on countable earned and unearned income and a “net income limit,” based on countable income minus various deductions and disregards:  Gross income limit: 130 to 200% FPL, depending on state. No gross income limit for households with disabled or elderly household members.  Net income limit: Either 100% FPL or no limit, depending on state	Varies by state. 23 states effectively have no SNAP asset limit whatsoever, 13 states have applied asset limits only to certain higher-earning households, and 5 states apply asset limits from \$5,000 to \$15,000 (U.S. Department of Agriculture, 2022d). The remaining 8 states apply the minimum allowable SNAP asset limit of \$3,750 for families that include at least one elderly or disabled individual and \$2,500 for other households (U.S. Department of	Can include employment, training, and job search activities, and vary by presence and age of children (U.S. Department of Agriculture, Food and Nutrition Service, 2019b). States can exempt a portion of SNAP recipients from work requirements.	Monthly food allowances provided via EBT cards	Depends on family size. Maximum SNAP benefits are \$250/month for a single person, \$459 for a 2-person household, \$658 for a 3-person household, \$835 for a 4-person household, and more for larger households

Program	Target Population	Income Limits*	Asset Limits	Work Requirements	Benefits	Value of benefits
			Agriculture, Food and Nutrition Service, 2022e).			
WIC	Pregnant individuals, postpartum parents of infants or toddlers, and children under age 5	185% of FPL***	None	None	Food packages / vouchers, health care referrals, and nutrition education, among others (U.S. Department of Agriculture, Food and Nutrition Service, 2021b)	Varies by age and location. Food packages were estimated to be worth an average of \$57.60/month in FY 2018 across all ages, but \$138.64/month for infants.
NSLP/ SBP	School-age children. Age range depends on state and disability status.	185% of FPL, or no limit for Community Eligibility Provision (CEP) sites, described below.	None	None	Free or reduced priced breakfast and lunch in school	Subsidy varies by location, grade level, meal type, and income (School Nutrition Association, n.d.). Meals covered by these programs save families the amount of cash they would otherwise spend on meals for participating children.

\* "Income" refers to earned income, such as wages or income from self-employment, and also includes "unearned" income. The types of income classified as "unearned income," and whether such income is counted against eligibility or benefit amounts, vary depending on program and state. See Table 3 for a comparison of how different types of gift income are counted in the above programs. "Gross income" or "countable income" refers to the total of all sources of income used in determining eligibility for a particular program. The amount of countable income minus these deductions and disregards is often called "net income."

\*\* Authors' analysis of SSI program rules.

\*\*\* While states have the option of setting WIC income limits between 100% and 185% of the federal poverty guideline (U.S. Department of Agriculture, Food and Nutrition Service, 2021c), all states currently set WIC limits at the maximum of 185% of the federal poverty guideline (Aussenberg, 2017).

## **STATE VARIATIONS ACROSS CASH ASSISTANCE AND FOOD ASSISTANCE PROGRAMS**

Of all these programs, TANF rules vary most widely by state, as the federal block grant that funds the program allows states considerable flexibility to determine eligibility criteria, including criteria around income limits, asset limits, and what counts as income. States can also supplement federal funding for TANF programs with state “maintenance of effort” funds to support certain families beyond what federal funding allows, including through additional cash assistance. SNAP income limits and asset limits also vary widely by state, but federal rules dictate what types of income count in SNAP determinations. Compared to TANF and SNAP, there is considerably less flexibility for states to expand federal rules for SSI, WIC, and child nutrition programs, including what types of income are counted.

## **ELIGIBILITY AND COVID-ERA EXPANSION AMONG CHILD NUTRITION PROGRAMS**

The two primary child nutrition programs of focus for this paper will be SBP and NSLP, or, respectively, school breakfast and school lunch. Both programs generally include income tests to determine eligibility, whereas federally funded summer meal programs (SFSP and SSO) do not assess eligibility at the individual or family level. As a result, the benefits these summer programs offer are completely protected from any additional income provided by DCT programs. Federal expansions to child nutrition programs during the COVID crisis also enabled schools to offer free school meals to students and other children during the pandemic, regardless of income, but these expansions have so far been temporary. Without legislative action (as of June 2022), these expansions will conclude before the 2022–23 school year (Cahan, 2022). Under permanent rules, SBP and NSLP enable schools to offer free meals to students whose families are eligible for SNAP or have incomes below 130% of the federal poverty line (FPL), and these programs also offer reduced-price meals to students from families with incomes below 185% FPL. Through an option within these programs called the Community Eligibility Provision (CEP), schools and school districts with high densities of low-income children can also provide free school breakfasts and lunches to all students, regardless of income.

## **OTHER CASH AND FOOD ASSISTANCE PROGRAMS**

The programs mentioned above constitute the predominant, but not comprehensive, array of cash and food assistance programs available to youth in the U.S. at risk of or experiencing homelessness. For example, this paper does not explore General Assistance (GA) programs, which are state funded and administered. GA programs operate in only 25 states, and only 11 states provide GA cash assistance to nonpregnant and nonparenting adults without disabilities, the largest group categorically excluded by TANF and SSI. The maximum benefit amounts of GA programs across the states that offer them are usually well below the maximum benefit levels provided by TANF programs (Schott, 2020). GA programs typically do not confer eligibility for other cash and food assistance programs and are often programs “of last resort” used by individuals who do not receive other cash and food assistance.



**Because only earned income from employment affects unemployment compensation, those receiving DCTs are not at risk of losing any unemployment payments.**

Because of these features, it appears likely that in most states, any losses in cash and food assistance resulting from DCT receipt among GA recipients would be limited to a smaller loss of GA cash assistance compared to the value of the DCT they receive. While the following discussion largely does not incorporate GA programs due to their limited geographical scope, DCT administrators in states that offer GA will need to consider it in any comprehensive approach to shield the benefits DCT recipients receive. (This may be especially important in South Dakota, the sole state operating a GA program that has not expanded Medicaid. South Dakota extends Medicaid eligibility to GA recipients who would not otherwise qualify for coverage [Schott, 2020]). As GA programs operate under state or local rules, administrators and advocates can take similar approaches to protecting GA cash assistance as they currently do for protecting TANF cash assistance (see Section 5).

Additionally, young adults with official migrant and refugee status or who identify as American Indian/ Alaskan Native (AIAN) may also have access to separate cash or food assistance programs (Administration for Children and Families, 2020; Indian Health Service, n.d.; Office of Family Assistance, 2022; U.S. Department of the Interior, n.d.). These programs are not covered in this paper but merit further study among DCT programs targeting these populations. Payments from Social Security Disability Insurance (SSDI) are also not discussed below. This is partially because the youth researchers consulted for this paper reported that very few young adults at risk of homelessness that DCT programs currently target receive SSDI. Additionally, DCTs classified as gift income would not count against SSDI eligibility for people who receive SSDI, as only earned income can affect SSDI receipt in these cases. Similarly, because only earned income from employment affects unemployment compensation, those receiving DCTs are not at risk of losing any unemployment payments. Finally, legislation passed in the wake of COVID-19 provided cash assistance in the form of stimulus payments, federally funded paid family and medical leave, and expanded unemployment compensation, among other supports. However, these forms of assistance were pandemic-specific, temporary, and are not expected to become permanent in the near future. Food banks and other food distribution programs—including programs directly or indirectly supported by federal funds—can also be an important resource for families or individuals with limited income. However, they typically are administered locally or privately and usually do not have any eligibility criteria.

## HOW DCTS CAN IMPACT CASH AND FOOD ASSISTANCE

Receiving DCTs may result in the reduction or loss of cash and food assistance programs in the following ways:

- **Reduced benefit amounts.** When a DCT payment is not excluded from what is considered “countable” income in a specific means-tested program, and the amount of cash or food assistance received depends on the income of benefit recipients, DCTs can lead to lower benefit amounts. The amount of SNAP, TANF, and SSI assistance that households receive vary depending on the amount of a household’s income (usually adjusted income based on allowable disregards and deductions). For individuals/families enrolled in multiple programs, the combined impact of these incremental losses in benefit amounts can potentially exceed the amount of a DCT, resulting in an overall net loss.

- **Benefit cliffs.** Depending on the size of the DCT and other income an individual or family receives, DCTs may even push countable income above the income limit of a means-tested benefit, resulting in a complete loss of that benefit. While some programs reduce cash or food assistance gradually as income increases, program rules that use a gross income test to determine initial or ongoing eligibility—including rules in SNAP (among households that do not include an elderly or disabled household member), WIC, NSLP, and SBP—can result in a sudden, dramatic decline in benefit receipt. This decline, called a “benefit cliff,” could potentially cause a loss greater than the cash value of a DCT.
- **Exceeding asset tests.** Within programs that set asset limits, any unused portion of a DCT may be counted towards eligibility if that portion is held in an account that the program considers as an asset (also called a “resource”), like a checking account. Federal rules impose an asset limit within the SSI program and states vary in whether they impose asset limits within TANF and SNAP programs. Some assets are typically excluded from these tests, such as the value of a home and vehicles used to get to work (and in some states, retirement accounts or other restricted savings accounts). However, no state that employs asset tests for SNAP or TANF excludes the funds held by households in regular checking or savings accounts from these tests. If DCT payments are held in accounts like these, and the balances in these accounts exceed allowable limits, individuals can lose SNAP, TANF, or SSI benefits.
- **Loss of categorical eligibility.** “Categorical eligibility” occurs when receipt of one public benefit confers eligibility for another one. Such rules can be very beneficial—they remove barriers to benefit receipt. However, categorical eligibility can also be a double-edged sword; the loss of eligibility for one program can cause near-simultaneous loss of eligibility for another program. This is further discussed in Section 4.

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## SECTION 2. TREATMENT OF TARGET POPULATIONS WITHIN CASH AND FOOD ASSISTANCE PROGRAMS

Special rules within cash and food assistance programs apply differently to young adults depending on past or present circumstances, including homelessness, involvement in the child welfare system, involvement in the justice system, disability, immigration status, and pregnancy or parenting status (none of which are mutually exclusive). Enrollment in high school or secondary education can also be a factor in determining eligibility or compliance with program rules. Table 2 summarizes special rules or considerations in these programs for these populations. Consideration of these special rules must also incorporate the significant overlap between these populations.

**Table 2. How Certain Circumstances Affect Eligibility or Benefits**

Program	Homeless	Student	Immigration Status	Pregnant/ Parenting	Disability	Current or Former Foster	Felony Conviction
TANF	Varies by state. As indicated above, many states connect TANF applicants or recipients experiencing homelessness to housing programs. The definition of homelessness also varies by state, although the majority of states adopt HUD’s definition of “Category 1” homelessness: “Individuals or families who lack a fixed, regular, and adequate nighttime residence,” the definition used in federal housing programs (Dunton & Sierks, 2021).	State-specific rules on work requirements vary depending on whether enrolled in high school or postsecondary education.  Students’ income is often disregarded when determining TANF eligibility and benefit amounts.	Noncitizens must be “qualified” immigrants* +	TANF cash assistance is only available to families with children or pregnant individuals.  A teenage parent who is classified as head of a TANF household must be enrolled in school to be exempt from work requirements (Social Security Administration, 2012).	Disability status may exempt recipients from work requirements.	Varies by state. Foster children may be able to receive TANF as a “child-only” TANF case if they aren’t eligible for federal foster care benefits. TANF funds may, in some cases, be used for kinship care (Brite, 2014).	Varies by state. Default federal rules ban people with drug felony convictions from receiving TANF, but states can partially or fully waive this ban (Opportunity Reconciliation Act of 1996, 1996; Center on Budget and Policy Priorities, 2022).
SSI	Agencies can expedite application processing for individuals or families who lack a fixed, regular, and adequate nighttime residence, or those who are at risk of losing such a nighttime residence within 14 days (Nicholas & Hale, 2021).  People living in a public shelter can receive SSI cash assistance for 6 out of every 9 months (Social Security Administration, 2022c).  SSI recipients in transient living situations may receive less SSI if they pay less than other cohabitants for household expenses (Nicholas & Hale, 2021).	SSI excludes income from certain children enrolled in educational programs (Social Security Administration, 2022d).  Some education-related benefits are exempt from income in determining SSI eligibility and benefit amounts (Social Security Administration, 2021d).	Noncitizens must be “qualified” immigrants* +	The presence of a child in the home of a married couple when only one spouse is eligible for SSI can affect the monthly amount of SSI cash assistance (Social Security Administration, 2009).	SSI is only available to people who have been determined to be unable to earn wages or work hours that satisfy a federal definition of “substantial gainful activity,” such as full-time work (What we mean by substantial gainful activity, 2020).	SSI payments to foster children are typically not available until all foster care payments have stopped (Social Security Administration, 2022e).	Prior felony convictions do not affect eligibility (Social Security Administration, 2021e).

Program	Homeless	Student	Immigration Status	Pregnant/ Parenting	Disability	Current or Former Foster	Felony Conviction
SNAP	Varies by state. Households experiencing homelessness are not required to show proof of housing costs to receive a special SNAP deduction available in 27 states—the homeless shelter deduction—that can enable eligibility for SNAP or increase SNAP benefits (Shahin, 2019; U.S. Department of Agriculture, Food and Nutrition Service 2018). The SNAP definition of “homelessness” used to claim this deduction is broader than that used in federal housing programs and includes staying in temporary residences such as halfway houses and other housing that will last less than 90 days (Supplemental Nutrition Assistance and Food Distribution Program, 1978) .	Students enrolled in postsecondary education at least half-time are not eligible for SNAP unless they are responsible for a child, meet additional work/training requirements, receive TANF, are younger than 18, or have a disability.  Earnings of students under 18 in primary or secondary school are excluded from SNAP benefit determinations (U.S. Department of Agriculture, Food and Nutrition Service, 2021d).	Noncitizens must be “qualified” immigrants*+	Able-Bodied Adults without Dependents (ABAWDs) are subject to different work requirements and time limits.	Gross income limits are waived among households with a disabled or elderly household member.  Disability status exempts recipients from work requirements.	Foster children living with families cannot receive SNAP as individuals. Families have the option to include foster children in their family unit or not (Supplemental Nutrition Assistance, 1978; U.S. Department of Agriculture, Food and Nutrition Service, 2020c).***	Individuals who have been convicted of certain crimes and who are not in compliance with terms of sentence are barred (Supplemental Nutrition Assistance Program: Student Eligibility, Convicted Felons, Lottery and Gambling, and State Verification Provisions of the Agricultural Act of 2014, 2019). States are allowed to impose restrictions on individuals with prior drug-related felony convictions (Personal Responsibility and Work Opportunity Reconciliation Act of 1996, 42 U.S.C. § 1305, 1996).
WIC	Prioritized for enrollment (United States Department of Agriculture, Food and Nutrition Service, 2022f). Homelessness is defined in the WIC program more broadly than it is within SNAP and includes temporarily staying in the residence of another individual for less than 1 year (Child Nutrition Programs, Special Supplemental Nutrition Programs for Women, Infants and Children, 1985).	Not a factor.	State option, although nearly all states allow access to WIC**+	Must have a child aged 0-5 or be pregnant	Disability status may prioritize individuals when funds are low (Institute of Medicine Committee on Scientific Evaluation of WIC Nutrition Risk Criteria, 1996; U.S. Department of Agriculture, Food and Nutrition	Eligible via Medicaid or state option****	Not a factor (Special Supplemental Nutrition Program from Women Infants and Children, 1985)



Program	Homeless	Student	Immigration Status	Pregnant/ Parenting	Disability	Current or Former Foster	Felony Conviction
					Service, 2011), but WIC has been fully funded since 1997 (Carlson et al. 2017).		
NSLP/ SBP	Automatically eligible (Richard B. Russell National School Lunch Act As Amended Through P.L. 116–94, 2019). Homelessness is defined as “lacking a fixed, regular and adequate nighttime residence” (Determining eligibility for free and reduced price meals and free milk in schools, n.d.).	Must be a school-aged child.	Not a factor+	Must be school-aged or have a school-aged child	Not a factor	Automatically eligible (U.S. Department of Agriculture Food and Nutrition Service Child Nutrition Programs, 2017).	Not a factor

\*Included in the definition of a “qualified immigrant” are those who are lawfully admitted or granted asylum (Opportunity Reconciliation Act, 1996). Undocumented immigrants and Deferred Action for Childhood Arrivals (DACA) recipients are among those not considered qualified immigrants. Legal permanent residents who have been in the U.S. for less than five years cannot receive federal support through TANF and SNAP, but states have the option to use state funding to provide equivalent supports to this population as offered by these programs.

\*\*Federal law allows states to exclude immigrants from WIC participation based on the same immigrant groupings excluded from TANF and SNAP participation. As of October 2021, almost every state allows immigrant populations access to WIC (Broder et al., 2021; Congressional Research Services, 2017; Subpart C-Participant Eligibility, 1985; U.S. Department of Agriculture, Food and Nutrition Service, 1997).

\*\*\*States may also provide exemptions to work requirements or time limits for SNAP receipt for former foster youth using the 12% waiver for Able-Bodied Adults without Dependents (ABAWDs).

\*\*\*\*While federal rules do not mandate that foster children be automatically eligible for WIC (United States Department of Agriculture, Food and Nutrition Service, 2022g), federal rules mandate that states must include in their WIC state plans a description of how benefits are provided to foster children (Subpart B- State and Local Agency Eligibility- State Plan, 1985). WIC statutes also enable states to allow mothers and children enrolled in other state-administered programs to be automatically eligible for WIC (Certification of Participants, 1985). Many states have apparently applied this option to children in the state foster care system. Even among states in which foster children are not automatically eligible for WIC, foster children are eligible for Medicaid coverage (Centers for Medicaid and Medicare Services, 2013), and if they receive Medicaid, they are automatically eligible for WIC.

+While immigration status is not a factor for school breakfast and lunch, anti-immigrant rhetoric, policies, and practices deter many young immigrant adults from applying for them and other benefits. For example, the federal “public charge” rule stipulates that a person’s receipt of cash benefits like TANF or SSI can be a deciding factor in whether petitions for permanent resident status are approved (National Immigration Law Center, 2013). A rule implemented by the Trump administration expanded the list of programs that would deem someone a public charge to noncash benefits like Medicaid and SNAP, but this rule was reversed under the Biden administration. Confusion about public charge and an environment of increased immigration enforcement and other anti-immigrant policies have led many in mixed status families to avoid public benefits altogether due to fear of detention or deportation, or fear that their future efforts to attain legal status would be affected (Haley et al., 2013).

As can be seen in Table 2, some cash and food assistance programs restrict access or implement stricter rules based on the specific circumstances, while other programs expand eligibility to targeted groups. For example, individuals who are undocumented or have DACA status do not fall under the definition of “qualified immigrants” based on federal rules and are therefore barred from receiving TANF, SNAP, and SSI benefits (U.S. Department of Health and Human Services, 1998; Personal Responsibility and Work Opportunity Act, 1996). Similarly, in many states, having a criminal conviction for a drug-related felony can result in being denied TANF or SNAP or facing barriers to TANF or SNAP receipt (Center for Law and Social Policy, 2022). Federal law restricts these bans to those with criminal convictions, meaning that states cannot bar receipt of TANF or SNAP due to juvenile adjudications.

While getting TANF cash assistance is often contingent on working or attending work training programs for a certain number of hours, individuals with disabilities typically do not have to satisfy these requirements, nor do parents younger than 20 years old who are enrolled in secondary school or in an educational program directly related to employment (Social Security Administration, n.d., Mandatory work requirements). And, importantly, SBP and NSLP waive income limits for foster children and homeless children. Because all foster children are eligible for Medicaid, all foster children are also eligible for WIC through Medicaid. This means that DCT receipt will not affect WIC, SBP, and NSLP benefits among certain homeless families (as long as their living situations qualify as “homeless” under federal definitions) or families with foster children enrolled in DCT programs.



**Individuals who identify as trans, nonbinary, or gender nonconforming may have difficulty producing required documentation that aligns with their gender identity or that contains their “dead name”; having to fulfill these requirements may compound stress or trauma.**

While transgender and other LGBTQ+ young adults do not face any statutory restrictions for accessing these programs and do not benefit from any specific inclusionary criteria, there is strong intersectionality between LGBTQ+ young adults and the above targeted population subgroups. Due to systemic inequities and social stigma, young adults who identify as LGBTQ+ experience higher disadvantages and marginalization. For example, the LGBTQ+ population has a relatively high prevalence of self-harm and mental health conditions (Rafferty, 2018), and disability classifications stemming from trauma can qualify individuals for SSI (Social Security Administration, n.d.-a). According to a recent study, 39% of transgender individuals have disabilities, compared to 15% nationwide (Disability Rights Education and Defense Fund, 2018). Additionally, in a national survey on youth homelessness, 29% reported substance use problems and 69% reported mental health difficulties (Morton et al., 2017). Individuals who identify as trans, nonbinary, or gender nonconforming may also have difficulty producing required documentation that aligns with their gender identity or that contains their “dead name”; having to fulfill these requirements may compound stress or trauma.

Systemic racism also results in Black, Hispanic, American Indian / Alaskan Native (AIAN), and foster youth having higher health risks and worse health status than their White counterparts (Isasi et al., 2016; Park et al., 2014). These racial and sexual/gender minorities are disproportionately represented among the population at risk of or experiencing homelessness (Morton, 2020; Strudwick, 2021).

Additionally, former foster youth, Black, and AIAN individuals experience disabilities at higher rates than the general population (Centers for Medicare & Medicaid Services, 2021; Cheatham et al., 2020; Goodman et al., 2019; Young, 2021).

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## SECTION 3. TREATMENT OF DCT INCOME

Direct cash transfers within DCT programs are typically *unconditional*, meaning there are neither conditions for receiving the payments nor conditions on how the funds provided should or could be used. Because of this, program administrators of the above benefit programs have historically accepted the classification of these cash transfers when provided through private sources as “gift” income when reported by DCT programs and DCT recipients. Other income rules apply to *conditional* direct cash transfers—for example, establishment-specific gift cards, education stipends, or cash transfers that are contingent on work activities—but this paper focuses on unconditional DCTs as the primary payment option of interest for practitioners seeking to use DCTs to support young adults at risk of homelessness.

### PRIVATELY FUNDED DCTS

As with other eligibility criteria, different benefit programs treat gift income received from private sources differently and include separate rules for different types of gift income. Specifically, benefit programs have different rules for treating gift income when it is recurring (for example, provided monthly), is received as one lump sum, or is sporadically provided. In order to understand how the design of DCT programs affects the recipients’ benefits, it is critical to examine how cash and food assistance programs treat these types of gift income (and, therefore, how these programs treat DCTs). Table 3 describes how these different forms of unrestricted gift income are treated by the benefit programs of focus.

**Table 3: Treatment of Gift Income in Cash and Food Assistance Programs, by Frequency**

Program	One-time lump sum payments	Regular, recurring payments	Small, infrequent, irregular, or sporadic payments
<b>TANF</b>	As of 2020, 17 states did not count lump sum gift payments as income in determining TANF benefits, while 26 states counted lump sum gifts as income and 6 states partially excluded lump sum gifts, up to a certain monetary value. Among states that do not exclude lump sum income, special rules that vary across states dictate how lump income is divided across months following receipt to determine TANF eligibility and benefit amounts. Some states exempt lump sum payments from asset tests when they are spent in the month received (Urban Institute, 2022).	Generally counted toward eligibility and benefit amounts as unearned income	38 states exempt a fairly small amount of “casual” gift income (\$30-\$100) from being counted as income for determining TANF eligibility and benefit amounts but count the remaining towards eligibility and benefit amounts as unearned income. Generally, these rules apply to much smaller gifts than amounts that are considered lump sums (Urban Institute, 2022).
<b>SSI</b>	Counted toward eligibility and benefit amounts as unearned income (Social Security Administration, 2021d)	Generally counted toward eligibility and benefit amounts as unearned income	The first \$60 of unearned infrequent/irregular income in a quarter is not counted (Exclusions from Income, 2016)
<b>SNAP</b>	Certain types of nonrecurring lump sum payments, including those that could be considered gift income, are not counted toward eligibility or benefit amounts, but the full range of this exclusion is ambiguous (Income Deductions, 1978).*	Cash donations from charitable organizations based on need of more than \$300 per quarter are additionally counted toward eligibility and benefit amounts (Income and Deductions, 1978). However, states have the option to exempt recurring cash income funded by a nongovernmental source, which can include private sources, contingent on federal approval of such exceptions (Income and Deductions, 1978).	Infrequent or irregular income in excess of \$30 per quarter is generally counted toward eligibility and benefit amounts as unearned income (Income and Deductions, 1978).
<b>WIC</b>	Counted towards eligibility as “other” unearned income**	Counted toward eligibility as “other” unearned income (Income criteria and income eligibility determinations, 1985).	Counted toward eligibility as “other” unearned income**
<b>NSLP/SBP</b>	Seemingly not counted towards eligibility**	Counted toward eligibility as unearned income**	Ambiguous, seemingly excluded***

\*The federal statute at 7 CFR. 273.9(c)(8) describes the types of nonrecurring lump sum payments excluded from countable income for determining SNAP eligibility and benefit amounts. The statute lists a range of examples of lump sum payments that do not count (including income tax refunds, retroactive benefits, refunds from security deposits, and certain types of TANF payments), but is also clear that excludable lump sum payments are not limited to these examples. The ambiguity in this statute underscores the importance of coordinating with SNAP agencies or the federal government to determine whether lump sum DCT payments could be considered excludable under this provision (Income and Deductions, 1978). It is important to note that the text of this federal statute appears to make an incorrect reference to 45 CFR 261.31(b)(1) instead of 45 CFR 260.31(b)(1), when referring to the types of TANF payments that can be excluded (What does the term ‘assistance’ mean?, n.d.).

\*\*While the WIC program generally follows income definitions within NSLP and SBP programs (U.S. Department of Agriculture, Food and Nutrition Service, 2022h), a 1992 memo clarifies that lump sums provided as gifts and intended as income should be counted as “other” income and not excluded from WIC income determinations (Income criteria and income eligibility determinations, 1985; U.S. Department of Agriculture, Food and Nutrition Service, 1992). As both recurring gift income and lump sum gift income count toward WIC income determinations, sporadic payments would also be counted.

\*\*\*The USDA’s manual on Child Nutrition Programs indicates that infrequent and irregular earned income is excluded but is not explicit regarding irregular unearned income. Such income could likely be lump sum income received over several payments, however, which would seemingly be excluded based on the guidance in the USDA’s latest eligibility manual (U.S. Department of Agriculture Food and Nutrition Service Child Nutrition Programs, 2017).

Likely because of SNAP's widespread take-up, expansive nonfinancial eligibility criteria compared to other programs (as indicated in Table 1), and expanded SNAP-related benefits due to COVID-era policy changes, DCT programs have invested considerable effort to ensure SNAP benefits are protected among DCT participants (as described in Section 5). SNAP participation and benefit amounts also increased substantially during the COVID-induced financial crisis (U.S. Department of Agriculture, Food and Nutrition Service, 2022i), so interest in protecting these benefits among DCT programs may have also increased as a result. The DCT programs often cited as successes are commonly private-public partnerships and have benefitted from the exception within SNAP rules that excludes recurring income provided through a nongovernmental agency working with nonprofits or that has access to other private funds (California Department of Social Services, n.d.).

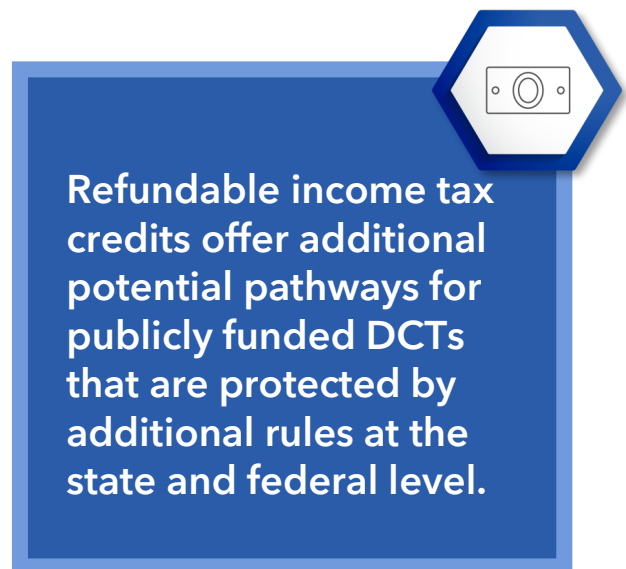
## PUBLICLY FUNDED DCTS

Recent DCT programs have primarily supported DCT payments through the use of private funds, for example, through foundation funding or public-private partnerships. However, public funds can also support unconditional DCTs. Cash and food assistance program rules categorize income provided through public sources distinctly from gift income provided through private funds, and, as with gift income, also consider whether such publicly supported income is recurring or provided in a lump sum. Notably, within SNAP, cash income provided as a recurring component of means-tested programs such as TANF, SSI, and GA are generally counted as income toward eligibility and benefit amounts (Income and Deductions, 1978). However, publicly funded lump sum payments can be excluded from SNAP income calculations in certain circumstances, such as when they are provided as short-term responses to crisis situations or episodes of need (Income and Deductions, 1978). This exemption suggests that DCTs funded by payments made to states under the American Rescue Plan Act (ARPA) are or would be excluded from SNAP income calculations.

Relatedly, NSLP and SBP count "regular cash assistance from State or local governments" as income (U.S. Department of Agriculture, Food and Nutrition Service, Child Nutrition Programs, 2017), but, as indicated above, exclude lump sum payments from income determinations. This exclusion could potentially apply to lump sum payments from public sources. WIC counts "public assistance or welfare payments" (Income criteria and income eligibility determinations, 1985) but excludes payments resulting from federal legislation that are excluded from income determinations, which presumably could also include payments funded by ARPA.

Similarly, SSI also excludes all "assistance based on need funded by a State or local government" as well as "disaster assistance," which could include payments made by states through ARPA funding (Social Security Administration, 2022f). However, SSI only excludes this type of assistance when payments are wholly funded by state or local governments and when income is a factor of eligibility for receipt (Unearned income we do not count, n.d.). For example, TANF payments, while based on income, are counted as income because they are not fully state funded.

Refundable income tax credits offer additional potential pathways for publicly funded DCTs that are protected by additional rules at the state and federal level. Refundable federal income tax credits are not counted as income across all benefit programs funded in whole or in part with federal funds, including TANF, SSI, WIC, NSLP, and SBP. SNAP rules also exclude all state and local refundable income tax credits from income calculations (Income and Deductions, 1978), as do SSI rules (Social Security Administration, 2022f). State and local income tax refunds provided as lump sum payments are also excluded from income calculations within NSLP and SBP, similar to the treatment of other lump sum payments in those



programs. Nearly all states include at least some flexibility to exclude state-level tax credits from being counted in TANF programs, as exemplified by data on whether state EITCs are counted in TANF determinations (Urban Institute, 2022). As with most TANF program rules, however, states have significant flexibility on what types of income, including income from means-tested programs or tax credits, count for such determinations.

## SECTION 4. THE SIGNIFICANCE OF CATEGORICAL ELIGIBILITY FOR BENEFIT PROTECTION



**Categorical eligibility rules can compound benefit losses but can also be used to shield DCT recipients from losing public benefits.**

Categorical eligibility, described earlier, can occur when receipt of one benefit qualifies individuals or families for another benefit program, or allows them to bypass eligibility tests for that second benefit program. Categorical eligibility rules can compound benefit losses: a DCT recipient may lose two or more benefits at the same time because they exceed income or asset limits in a single program. However, these same rules can also be used to shield recipients from losing benefits. Specifically, if eligibility for one program enables households to bypass income tests or asset tests for another program, efforts by DCT programs to protect eligibility for the former program can result in protected eligibility for the latter one. Categorical eligibility can therefore be a powerful tool for retaining eligibility across several important programs and maximizing benefits to individuals.

Categorical eligibility applies to this paper's programs of focus in the following ways:

- **TANF and/or SSI ► SNAP:** Households with countable income that falls below 200% of the federal poverty level, in which all members receive TANF or SSI cash assistance, or that receive a state-funded service that is part of a state's TANF program, are categorically eligible for SNAP and do not have to pass SNAP's gross income test.
- **TANF, SNAP, Medicaid, NSLP, and/or SBP ► WIC:** Receipt of TANF, SNAP, or Medicaid automatically confers eligibility for WIC if nonfinancial eligibility requirements for WIC (such as age of children) are met. Some states also confer eligibility to WIC among children who receive free school lunch or breakfast if they fulfill age restrictions.
- **TANF ► CCDF:** TANF recipients in many states are automatically eligible for Child Care and Development Fund (CCDF) childcare subsidies, which can be crucial for obtaining affordable childcare, and many states also waive CCDF co-payments for TANF recipients. See Box 1 for a brief discussion of CCDF subsidies.
- **SSI ► Medicaid:** While Medicaid is not a focus of this paper, it is essential to recognize that SSI provides categorical eligibility for Medicaid, which can be vital for the health of young adults—especially those who are pregnant, parenting, or have disabilities—and their children.
- **SNAP ► NSLP and SBP:** SNAP receipt confers eligibility for free school lunch and breakfast, relevant to young adults who have children or are still in high school.

- **SNAP, SSI, Medicaid, and/or federal housing subsidies ► Lifeline:** SNAP, SSI, and Medicaid recipients, as well as residents living in federally subsidized housing, are also eligible for Lifeline telephone subsidies. While the monetary amount of these subsidies is fairly small (about \$9.25 per month for Lifeline, for example), private telephone providers offer reduced-price phone and data plans specifically for households eligible for Lifeline (so-called “Obamaphones”). This raises the value of this benefit to the cost of a monthly phone and internet plan, which can be upward of \$100 per month.
- **SNAP, SSI, NSLP, SBP, WIC, Medicaid, Lifeline, or federal housing subsidies ► Affordable Connectivity Program:** Introduced in 2022, the Affordable Connectivity Program provides subsidies to help households pay for internet service, building off the temporary Emergency Broadband Benefit program implemented in 2020 (Federal Communications Division, 2022).
- **WIC ► Farmers’ Market Nutrition Program:** WIC recipients are eligible to receive Farmer’s Market Nutrition Program benefits, which support access to locally grown fresh produce (Certification of Participants, 1985).
- **Other local programs:** Depending on where DCT participants live, they may be able to access additional state or local benefits or services due to receiving cash or food assistance (NYC Consumer and Worker Protection, n.d.).

DCT programs can use, and have used, these rules strategically to protect participants from losing benefits. For example, as discussed in the Medicaid chapter in this toolkit, Modified Adjusted Gross Income (MAGI) Medicaid rules exclude gift income as a consideration in eligibility determinations. (This would include DCTs as long as Medicaid administrators and the U.S. Department of the Treasury continue to consider DCTs to be gift income.) In contrast, WIC counts both lump-sum and recurring gift income in determining eligibility. However, because of the rule that Medicaid enrollment enables WIC recipients or applicants to bypass WIC’s income test, anyone who is on both WIC and MAGI Medicaid will not have their WIC eligibility endangered by receiving gift income through DCT programs. (This same categorical eligibility could protect WIC if DCTs are provided in the form of refundable tax credits, which are not counted as income in MAGI Medicaid income determinations.)

Categorical eligibility can and has been used to protect other benefits relevant to DCT recipients as well. For example, where DCT programs have negotiated the exclusion of DCT income from countable income for SNAP (via state waivers, coordination with SNAP offices, or any of the other strategies described in Section 5), the continuation of SNAP receipt among DCT recipients will also extend their eligibility or their children’s eligibility for free school breakfast and lunch.

## BOX 1. CHILD CARE DEVELOPMENT FUND (CCDF) SUBSIDIES

A crucial benefit for many low-income families, Child Care and Development Fund (CCDF) subsidies fully or partially cover the cost of child care while parents work, attend job training, or need child care for other covered reasons. States operate CCDF programs through block grants provided by the federal government. CCDF provided subsidies to an average of 857,700 families per month across the U.S. in 2019, subsidizing the care of an average of 1,396,500 children per month that year (Administration for Children and Families, Office of Child Care, 2021a).

Federal law dictates some of the requirements of these state-operated programs, but states have significant latitude to determine eligibility requirements, income limits, and benefit amounts (Administration for Children and Families, Office of Child Care, 2021b). Federal rules also require that all states must adopt some form of sliding-scale copayment system—under which parents cover an increasingly higher amount of their child care costs as their household income rises—and states also differ widely on how these copayment schedules are constructed and implemented (Dwyer et al., 2020). Treatment of gift income and other types of income, too, varies by state: as of 2019, 35 states and DC excluded at least nonrecurring gift income from determinations of CCDF eligibility, while other states counted all or part of gift income in CCDF determinations. According to the Urban Institute’s latest collection of CCDF rules, the 15 states that do not fully exempt lump sum gift income from any source are Alaska, Colorado, Connecticut, Idaho, Illinois, Kansas, Michigan, Minnesota, Missouri, Montana, Nevada, Oklahoma, Pennsylvania, Utah, and Wyoming. Some states—such as Florida and Virginia—count recurring gift income in CCDF eligibility determinations, but not lump sum gift income (Dwyer et al., 2020). A parent who lives in a state whose CCDF program counts cash gifts as income, and whose DCTs are classified as gift income under CCDF program rules, could therefore either become ineligible for CCDF subsidies or pay higher CCDF copays due to DCT receipt.

DCT practitioners consulted by the authors estimate that about 40–50% of DCT participants are parents. Moreover, parenting young adults are 200% more likely to report homelessness than nonparenting young adults (Morton et al., 2017). Especially within states whose CCDF programs count lump sum gift income as income, DCT programs aiming to protect the benefits parents receive will need to consider how DCT receipt impacts CCDF eligibility and copays. DCT programs’ recent successful efforts to protect TANF benefits, described in Section 5, suggest that similar approaches could protect CCDF subsidies in states where DCT payments would count toward CCDF eligibility and benefits (as states have similar authority over both programs). However, the flexibility that DCT programs may have to protect CCDF subsidies, and the potential impacts that DCT payment methods might have on means-tested childcare programs, merits further study. Any exploration of child care in the context of DCTs should also explore the potential impact of DCTs on other means-tested programs that provide child care, such as Head Start, Early Head Start, and publicly subsidized Pre-K programs.

## SECTION 5. CURRENT OR EMERGING STRATEGIES TO PROTECT DCT RECIPIENTS’ PUBLIC BENEFITS

Protection of DCT recipients’ public benefits would enable young adults experiencing homelessness to participate in pilot DCT interventions without the interruption of public benefits such as food assistance and temporary cash assistance. Without protection, young people facing elevated levels of adversity will be in danger of receiving smaller benefit amounts or losing some benefits entirely. This could potentially erode the net benefit of the intervention and possibly produce new forms of inequality. Recent DCT programs that have provided payments as gift income, whether partially or fully privately funded, have employed the following strategies to protect cash and food assistance among DCT participants:

### PURSUING LEGISLATION TO PROTECT BENEFITS AMONG DCT PARTICIPANTS

Legislation introduced in Illinois, California, and New York has sought to prohibit payments distributed through certain pilot DCT programs from being counted as income or assets in determining benefit program eligibility or benefit amounts. Legislation in Illinois exempts unconditional DCTs provided through pilot or demonstration programs from being counted



as income in any program under the Illinois Public Aid Code, which includes TANF, provided that DCT payments are not funded through general revenue funds and have a research component (Illinois Public Aid Code, 2019). The recently passed New York bill, which is currently awaiting the Governor's signature (July 2022) exempts certain income and resources provided to people enrolled in pilot DCT programs from eligibility determinations for public assistance benefits (Act to Amend the Social Services Law, 2022). Finally, the proposed California bill was more expansive but did not pass. The bill would have exempted unconditional cash payments as income or resources under TANF and SNAP, to the extent possible under federal law, if the payments are distributed by registered entities through a program designed to reduce poverty and that contains a research component (Public social services programs: financial assistance demonstration and research programs, 2021).



**While federal legislation is the most sustainable avenue to protect DCT recipients' public benefits, it would be harder to pass federal legislation than state-level legislation.**

Legislation offers the most sustainable policy avenue for ensuring that DCT payments distributed by demonstration, pilot, or research programs are exempt from eligibility and benefit determinations for most cash and food assistance programs. In order for DCT payments to be exempted as income in these programs, state or local agencies and the laws that govern them have to have at least some control over benefit determinations. Evaluations of these pilot DCT programs—often required when exemptions to normal program rules are tied to research projects—may also produce data or outcomes that could serve as a timely and important public good. These results might include actionable evidence for city, state, and federal policymaking.

Federal rules, however, limit the reach of state or local legislation for protecting DCT recipients' benefits. For example, federal rules limit states' flexibility for expanding SSI benefits through state programs. They also limit the extent that state or local legislation can protect SSI benefits. While federal legislation is the most sustainable avenue to protect DCT recipients' public benefits, it would be harder to pass federal legislation than state-level legislation. Federal legislation exempting DCT income from cash and food assistance programs would likely need to take the form of adjusting the statutes that guide those programs, such as legislation amending the laws that guide the SNAP, SSI, or WIC programs.

## **PURSUING WAIVERS AND OTHER ADMINISTRATIVE SOLUTIONS**

While legislation offers a sustainable route to protecting certain crucial benefits, passage depends largely on the support that DCT programs have among lawmakers, without whom legislation cannot move forward. Moreover, drafting, introducing, and debating legislation may take more time than DCT program administrators have allotted for the duration of their DCT programs. Instead, DCT programs have pursued administrative solutions to prevent participants' benefit loss, primarily through program-specific waivers, official memoranda, or letters that exempt DCTs from being counted toward eligibility. One downside of pursuing administrative rather than legislative solutions, however, is that administrative actions can be reversed relatively quickly with changes in politically appointed agency leadership.

## PERTINENT EXAMPLES

The treatment of DCTs within California’s SNAP and TANF programs offer one example of how the successful pursuit of waivers resulted in a national policy change without legislation. Staff at the landmark Stockton Economic Empowerment Demonstration (SEED) initially worked with the agency managing California’s SNAP and TANF programs to secure a waiver exempting DCTs as countable income or resources in these programs. The original waiver specified that California Department of Social Services’ (CDSS) reviewed DCT programs could be exempt from CalWORKS (California’s TANF), regardless of the source of the funds, but that at least 50% of the DCT payments must come from a private source in order to be excluded from SNAP. In an April 2022 memorandum, though, the state of California noted that it had received clarification from the U.S. Department of Agriculture Food and Nutrition Service (USDA FNS) that DCT payments were exempt from SNAP determinations as long as payments were at least partially covered by nongovernmental (that is, private) funds (Yang, 2022). Shortly thereafter, FNS circulated a clarification that any state—not just California—has the option of excluding DCTs from SNAP eligibility and amount determinations as long as (a) DCT payments are funded either solely through private funds or through a mix of public and private funds and (b) the state also excludes such payments from TANF or Medicaid determinations. This revision provides greater flexibility for DCT programs and more protection for DCT participants’ SNAP benefits.

Administrative rulings at the federal level may also be a fruitful avenue to consider. For example, separate from cash and food assistance programs, the U.S. Department of Housing and Urban Development (U.S. HUD) is one agency that has expressed a willingness to waive consideration of DCTs as income when tied to a research program (San Francisco Office of Financial Empowerment, 2021), as they did for the Abundant Birth Project in San Francisco. In cases of waivers tied to research projects, DCT participants would likely need to agree to enroll in a research study in order for DCTs to be disregarded from various benefits.

Other examples of administrative rulings that can be used to support DCT programs include clarifications on temporary expansions to federal programs. For example, the Social Security Administration (SSA) issued guidance in 2022 that exempts payments distributed by the Chicago Resilient Communities Cash Assistance Pilot program from being counted as income and resources in SSI, due to these payments being classified as COVID-19 financial assistance (Social Security Administration, 2022g). SSA classified these payments as COVID-19 financial assistance because they were made possible through American Rescue Plan Act (ARPA) funding issued to states to address the ongoing pandemic. DCT pilots funded through COVID-19 relief funding like ARPA, the CARES Act, and the Consolidated Appropriations Act should seek to exempt payments from SSI consideration under this guidance.

The success of any efforts to similarly exempt DCT income from SNAP, WIC, NSLP, SBP, SSI, or other programs operating through federal rules based on similar criteria—for example, to exempt youth-serving DCTs as long as programs have a research component—likely depends largely on the constraints of the laws covering these programs, the willingness of government officials to support DCT programs, and political headwinds. Recent actions, such as the clarification described above from USDA FNS, suggest that the Biden administration may be willing to consider such efforts, possibly without legislation.



**Recent SSA guidance may allow DCT pilots funded through COVID-19 relief funding like ARPA, the CARES Act, and the Consolidated Appropriations Act to exempt DCT payments from SSI income tests.**

## **PARTNERING WITH PUBLIC BENEFIT AGENCIES AND DEVELOPING AGENCY MEMORANDA OR AWARD LETTER TEXT**

DCT programs have benefited from requesting clarifications and discussions with program administrators on ambiguous program rules through either internal conversations or via agency memoranda. For example, community-based organizations (CBOs) enlisted by THRIVE East of the River, a District of Columbia pilot DCT program, consulted with the DC Department of Human Services to understand and confirm how COVID-era changes helped protect participants' benefits even when DCT payments increased participants' income and resources above normal eligibility thresholds. (Shortly after COVID hit the U.S., recertifications for SNAP, TANF, SSI, and Medicaid were temporarily suspended.)

Where program rules or waivers are ambiguous or not widely known, award letters and agency memoranda can provide added legitimacy for recipients or their representatives in communicating the purpose of their DCT program and how DCT payments are counted (San Francisco Office of Financial Empowerment, 2021). Award letters can include information about any available waivers in the state, cite relevant legislation or agency memoranda if applicable, and provide contact information for DCT program staff or appropriate government agency staff for questions or concerns.

Federal officials have also informed the authors that agencies are more likely to respond to requests for clarifications on program rules when they are requested by multiple stakeholders across different states. Indeed, the aforementioned clarification of SNAP rules by USDA FNS was made in response to requests for clarification from multiple state agencies and nonprofit organizations. Other coordinated efforts by DCT stakeholders and state or local government agencies submitting such requests could lead to further official administrative clarifications that benefit DCT program participants.

Close contact and transparency with agencies that operate public benefits can be helpful not only for confirming program rules, but also to build trust and support for DCT programs among public benefit administrators, potentially increasing internal support for removing administrative barriers (such as by enacting waivers). Transparency and attempts at clarification will likely reduce risk to DCT participants even when local or state governments or administrators may not be supportive of or sympathetic to DCT programs. Alternatively, not informing administrators of DCT payments, when the law is ambiguous about whether such payments are countable, could result in severe penalties for DCT participants if administrators later determine that DCT payments are countable and have been unreported.

In deciding which of the above options to pursue in amending or clarifying rules for protecting DCT participants' benefits, DCT program staff should consider a number of factors, among which are (1) whether the benefits of interest are federal-, state-, or county-administered programs, (2) whether staff have connections to relevant agencies and can request meetings with them to discuss avenues for protecting DCT benefits, (3) how much time it may take to pursue legislation, waivers, or agency memoranda in relation to the allotted amount of time for the implementation of the DCT program, and (4) whether political will exists to change or clarify rules regarding cash transfers. DCT programs could choose to pursue options that prioritize protection of one benefit over others, as many have done with SNAP, or pursue multiple avenues to protect multiple benefits if capacity allows.



**Close contact and transparency with agencies that operate public benefits can be helpful not only for confirming program rules, but also to build trust and support for DCT programs.**

## **MAXIMIZING CURRENT CATEGORICAL ELIGIBILITY RULES AND TEMPORARY PROGRAMMATIC EXPANSIONS**

As mentioned above, DCT programs have also made strategic use of categorical eligibility rules to shield at least some public benefits. For example, the authors understand that at least one site in the Mayors for Guaranteed Basic Income consortium is conducting preliminary research to determine the extent to which categorical eligibility can protect the benefits of their DCT program's target population. Similarly, as mentioned above, the DC THRIVE East of the River project made strategic use of temporary programmatic expansions to SNAP and Medicaid in order to protect DCT recipient benefits. Understanding and applying these program rules in creative ways can be used to ensure that DCT recipients will not lose their benefits.

## **PROVIDING BENEFITS COUNSELING**

Empowerment and choice are central principles in the implementation and purpose of unconditional DCT programs. With this principle in mind, DCT programs such as the New York City Trust Youth Initiative—which supports young adults experiencing homelessness—have provided one-on-one benefits counseling to allow participants to make informed decisions on whether to participate in DCT programs and how to receive their DCTs. Culturally competent benefits counseling allows social workers or other highly trained individuals familiar with local, state, and federal public benefits to provide potential DCT participants with information about how DCTs may impact their benefit amount or eligibility. Offering such information supports informed decision making on whether to participate in DCT pilots. The DC THRIVE project adopted a multipronged version of this approach by both enlisting trusted CBOs to help participants understand and mitigate the risk of losing public benefits as a DCT recipient, while also retaining pro bono attorneys available to potential participants to discuss their individual circumstances prior to deciding whether to enroll in the program (Bogle et al., 2022). (See Box 2 for more details on issues that could be covered in benefits counseling.)

## BOX 2: KEY QUESTIONS TO COVER IN BENEFITS COUNSELING

- **How will receipt of DCTs through this intervention affect the benefits I currently receive?** By understanding the considerations presented in this paper and others in this compendium, benefit counselors can help potential DCT participants understand the protections they have for certain benefits and risks that DCT participation may have for others. Informing DCT recipients of these risks before DCT participants decide to receive DCTs is important for obtaining informed consent. For example, benefit counselors could inform parenting or pregnant DCT participants on Medicaid and WIC that their WIC benefits would not be affected by participating in a DCT program because they are WIC-eligible based on their receipt of Medicaid, not based on their income. In addition, since WIC receipt provides categorical eligibility for the Farmer's Market Nutrition Program, the latter would be protected for these young adults as well.
- **Is DCT participation right for me?** Despite the above strategies, it may not be possible to completely protect a potential DCT participant's benefits. Through discussions with benefits counselors about the impacts of DCT participation, potential participants may decide that losing a certain benefit temporarily might be worth the added income from participation in a DCT program. For example, a participant may decide that a loss or reduction in TANF or SSI due to an influx of unconditional cash from a DCT program is an acceptable tradeoff. As SSI receipt confers eligibility for a Medicaid pathway specific to SSI recipients, benefits counseling could also help prepare SSI recipients to transfer to another Medicaid pathway in anticipation of possibly losing SSI coverage. (See Section 6 for a discussion on how alternative payment options may further help retain SSI benefits.)
- **How can I apply for benefits, or reapply for benefits if I lose them?** Counselors can also walk DCT recipients through how to reapply for benefits if lost and how to take advantage of categorical eligibility rules, by perhaps choosing to apply to one program before another. They can also help DCT recipients apply for other benefit programs, regardless of whether they had previously enrolled in those programs.
- **How do I report DCT income?** Benefit counselors can also inform participants how to properly report their DCT payments, because misreporting income could lead not only to returning benefit payments back to administering agencies, but also to a suspension of future benefits.
- **How can I arrange my DCT payments to best protect my current benefits?** As indicated in Table 3, different benefit programs have different rules on whether recurring gift income, lump-sum gift income, and sporadic income are counted toward eligibility. Benefits counseling can empower participants to better understand how frequency of payments could affect their individual benefits.
- **When should I receive DCT payments to best protect my current benefits?** The timing of any income may also impact benefit amounts. If incorporating this choice within the design of DCT programs, benefits counseling can also help DCT recipients determine what pacing of DCT receipt will best protect their benefits. For example, receiving a DCT payment shortly after certification or shortly before could help an individual retain eligibility for certain benefit programs, depending on how benefits may be affected and how often changes in income must be reported. Additionally, across all programs, the same source of income (unearned or earned) cannot count as income and resources in the same month. For example, in SSI, a \$1,000 cash gift may be counted as income in May and as a resource/asset if there is any left over in June (SI 01110.600 First-of-the-Month (FOM) Rule for Making Resource Determinations, 1995). Benefits counselors can help DCT recipients time DCT payments to occur in the same month they are spent, reducing the risk that payments could push assets above a program's asset limits.
- **If I do not plan on spending my DCT income immediately, what resources are available to help me protect my increased savings from affecting benefits in programs that have asset tests?** Benefit counselors can also educate DCT recipients on the availability of savings accounts or other accounts that are exempt from SSI, TANF, or SNAP asset tests, and can also point recipients to other tax-advantaged financial assets. ABLE accounts, discussed in more detail in Section 6, are one of several savings accounts that provide such protection and also provide income tax advantages. Individual Development Accounts (IDAs; Administration for Children and Families, Office of Children, Office of Community Services, n.d.), contributions to 529 Education Savings accounts, Individual Retirement Accounts (IRAs), accounts set up by individuals to pay for future educational expenses, and accounts set up to save money toward the purchase of a house may also be exempt, depending on the state and program (Dehry et al., 2022). While these types of restricted accounts may not be appropriate for all DCT participants, they can offer helpful options in a toolbox of supports helping to protect benefits.

## ADMINISTERING A HOLD HARMLESS FUND

Another strategy for protecting benefits is establishing a “hold harmless fund.” Hold harmless funds compensate participants for the benefits they may lose as a result of receiving a DCT. One precedent for the use of such funds arises from the implementation of Alaska’s permanent fund dividend (PFD), an annual direct cash benefit to Alaskan residents funded through Alaska’s mineral resources revenue (State of Alaska Department of Revenue, n.d.). Alaska uses a hold harmless fund to cover the loss of SNAP or SSI benefits due to PFD receipt. Alaska’s long-standing PFD program served as the model for SEED’s hold harmless fund, implemented to cover the potential loss of federal housing subsidies as a result of DCT receipt (Baker et al., 2020).

Some members of the DCT community consider hold harmless funds to be a “last resort,” for when efforts to protect benefits through administrative rulings, policy clarifications, or legislation are unsuccessful. Limitations include the following:

- Monetizing the value of benefit loss can be difficult when considering the nonmonetary aspects of some cash and food assistance programs. The impact of losing Medicaid upon loss of SSI benefits, for example, can depend on an individual’s health needs and health care utilization, and any comprehensive compensation for the loss of WIC would need to include not only the estimated value of family food packages, but also additional services available through WIC programs, including, in some areas, lead screening for children and breastfeeding support (Frost, 1993; U.S. Department of Agriculture, Food and Nutrition Service, 2013).
- To truly protect against benefit losses from DCT receipt, hold harmless funds would not only need to cover losses by individuals currently receiving benefits, but would also need to account for the potential loss of benefits among people who are not currently enrolled in benefit programs but are eligible for them. Otherwise, programs could inequitably favor recipients of public benefit programs compared to potential applicants. Ensuring equity in fund distribution and accounting for this adds to the complexity it would take to fully budget funds needed to protect DCT recipients comprehensively.
- If higher-than-expected hold harmless fund payouts result in a shortage of funds available for DCT recipients, some DCT recipients may not be fully compensated for losses they experience.

For these reasons, the authors consider the inclusion of hold harmless funds in DCT programs as a promising program design element, albeit one that should be considered with these challenges in mind.

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## SECTION 6. ADDITIONAL RECOMMENDATIONS

The strategies covered in Section 5 that are currently being used by DCT programs have been crucial for protecting much of the cash and food assistance program participants receive. To further protect the benefits among the target population of youth at risk of homelessness enrolled in DCT programs, we suggest that: (1) programs consider alternative payment options for DCT participants receiving SSI and (2) efforts to scale up DCT programs consider refundable tax credits as another alternative payment method, as a long-term goal separate from pilot or demonstration projects.

## PROVIDING ALTERNATIVE PAYMENT OPTIONS FOR DCT PARTICIPANTS RECEIVING SSI

With the exception of SSI cash assistance, DCT programs that provide DCTs using private funds or a mix of private and public funds to support DCT disbursements can protect eligibility for TANF, SNAP, WIC, and child nutrition programs. Eligibility can be protected even without implementing potentially costly measures such as hold harmless funds, via the following approaches described earlier, which we summarize here:

- DCT programs have obtained waivers or other favorable administrative rulings to exempt DCTs from being counted in determining applicant or recipient TANF eligibility and benefit receipt;
- DCT programs have been successful in exempting DCTs from being counted in determining applicant or recipient SNAP eligibility when the gift amounts offered through DCT programs are at least partially privately funded (Yang, 2022);
- clarifications from federal, state, and county agencies have revealed there may be further flexibility for exempting DCTs from SNAP determinations when a DCT is provided in a lump sum;
- receipt of SNAP benefits or CEP participation by schools or school districts confers eligibility for free school lunch or breakfast; and
- among DCT recipients who receive MAGI Medicaid coverage prior to receiving DCT payments, the receipt of DCTs classified as gifts will not impact Medicaid coverage (due to MAGI rules) and will therefore enable recipients to remain on or receive WIC without interruption, as Medicaid receipt confers WIC eligibility.

In contrast, there are no similar administrative pathways to protecting SSI cash assistance when the DCT is funded through any amount of private or federal funds. This is especially problematic for DCT programs seeking to include people with disabilities, because not only does SSI offer crucial financial support for many members of this population, but SSI also confers Medicaid eligibility. Individuals who lose SSI in states that have expanded Medicaid will likely be able to receive Medicaid through the MAGI Medicaid pathway. However, DCT recipients who live in Medicaid nonexpansion states may be unable to remain enrolled in Medicaid if DCT receipt pushes them above SSI's income and asset limits (Kaiser Family Foundation, 2022). All SSI recipients have disabling medical conditions, so alternative healthcare coverage with high premiums, deductibles, copays, or coinsurance rates can lead to costs that could far outweigh the value of any DCT. It is possible that SSI recipients may be able to enroll in alternative routes to qualifying for Medicaid (such as Medicaid While Working programs and Medically Needy pathways) to help reduce these expenses, and federal cost-sharing subsidies can also help reduce out-of-pocket costs. But previous research indicates that SSI recipients commonly do not want to lose the Medicaid coverage that SSI offers, and these alternative pathways, too, have income limits (Burke et al., 2021).

As a result of these potential negative impacts, DCT programs have reported difficulty identifying ways to protect SSI benefits within DCT programs and, in at least one case, have considered simply excluding individuals receiving SSI from receiving DCTs.<sup>5</sup> However, excluding current or potential SSI recipients would be especially problematic for DCT programs targeting young adults at risk of or experiencing homelessness, especially because of the high prevalence of disability and mental health conditions among homeless populations and former foster youth (Ayano, et al., 2019; Ayano et al., 2020;

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<sup>5</sup> Privileged communication with Authors.



Cheatham et al., 2020). In order for DCT programs to be equitable, it is critical to include SSI recipients, rather than excluding them from receiving the benefits that DCT programs can offer. It is also important for DCT programs to encourage young adults at risk of homelessness who also have disabling medical conditions to apply for SSI, rather than inadvertently making them ineligible for SSI due to DCT receipt. Including young people with disabilities in DCT programs is also important to ensuring racial equity in these programs, as evidenced by the disproportionate overrepresentation of Black, Hispanic, and AIAN individuals among SSI recipients (Giefer, 2021; Smith-Kaprosey et al., 2012).

To help achieve equitable access to DCT programs, the authors suggest that DCT recipients be provided additional DCT payment options. Specifically, SSI recipients may prefer to receive direct cash transfers as contributions into Achieving a Better Life

Experience (ABLE) accounts, described in Box 3, as an alternative payment option rather than risk losing SSI benefits because of receiving DCTs as gift income (Internal Revenue Service, 2021a). There are very few limitations constraining how funds in ABLE accounts can be spent as long as they help support ABLE account holders. Benefits counselors could empower DCT participants by informing them about ABLE accounts and leaving the final choice of payment receipt up to the recipients themselves. Additionally, benefits counselors could also help DCT participants receiving SSI set up a Plan to Achieve Self-Support (PASS), described in Box 4. Both earned income and unearned income—which includes gift income—that is directed toward expenses that support career goals as outlined in PASSes also do not count toward income and asset limits for determining SSI eligibility and other benefit programs.

ABLE accounts are also universally available throughout the U.S. Although state governments decide whether to establish ABLE accounts, some states' ABLE accounts allow nonresidents to establish accounts, so even residents of the four states that do not have state-sanctioned ABLE accounts (Idaho, North Dakota, South Dakota, and Wisconsin) can establish ABLE accounts in other states (ABLE National Resource Center, n.d.-a). Benefits counselors could also help DCT participants on SSI choose the right ABLE account for their needs (such as an ABLE checking account or an ABLE account with a long-term investment option; ABLE National Resource Center, n.d.-b) or connect them with other specialists who can provide additional support.

In short, ABLE accounts or PASSes offer the means for DCT programs to support people with disabilities in a positive and equitable way. We feel that they offer two promising ways for young SSI recipients to be allowed the choice to participate in a DCT program in a way that does not threaten lifesaving healthcare coverage, allows them the opportunity to save money for a rainy day, and allows them to be full participants in society in a manner consistent with those who do not have disabling conditions.

**For DCT programs to be equitable, it is critical to include Supplemental Security Income recipients, rather than excluding them from receiving the benefits that DCT programs can offer.**



## BOX 3: ACHIEVING A BETTER LIFE EXPERIENCE (ABLE) ACCOUNTS

Established by federal law in 2014, tax-favored ABLE accounts allow people who have disabilities that have manifested prior to age 26 to save money to maintain “health, independence, and quality of life” (ABLE Act of 2014, 2014). Any ABLE account balance under \$100,000 is not counted as an asset in SSI, and ABLE accounts are also excluded from asset tests in SNAP (Silbermann, 2016) and most other federal and state benefit programs. Both contributions to ABLE accounts (including from third parties) and withdrawals from ABLE accounts are not counted as income in SSI, SNAP, TANF, WIC, NSLP, SBP, Medicaid, and federal housing programs. This means that if DCT programs provide DCT funds to SSI recipients as contributions to ABLE accounts instead of as gift income, eligibility for all the cash and food assistance programs discussed in this paper can be protected. As long as withdrawals (referred to as “distributions”) from ABLE accounts are used within a month after withdrawal, there is no effect on SSI eligibility, and the distributions are not taxable (Internal Revenue Service, 2021b; Social Security Administration, 2022h). Funds in ABLE accounts can be used for “Qualified Disability Expenses (QDEs),” which include basic living expenses, transportation, healthcare, employment training, and other common expenses (Guidance under Section 529a: Qualified ABLE programs, 26 CFR 1, 25, 26, 301, 602, 2020). The federal government has purposefully left the definition of what counts as a QDE ambiguous, to avoid restricting ABLE account holders from using these funds on expenses that support their livelihood and economic advancement (Guidance under Section 529a: Qualified ABLE programs, 85 Fed. Reg. 74010, 2020).

Some constraints on ABLE accounts mean that benefits counseling will likely be necessary to ensure that DCT participants understand how to use them effectively. However, these constraints are minimal and can allow for DCT programs to contribute sizeable DCT amounts to participants with no other outside source of income except their own wages. The current maximum total contribution to ABLE accounts—including contributions by friends, family, and other third parties—is \$16,000 annually; the maximum changes periodically with inflation (ABLE National Resource Center, n.d.-c). In addition to that \$16,000, ABLE account holders can currently also contribute their own earnings—up to 100% of the FPL for a one-person household—into these accounts (Internal Revenue Service, 2018), due to a temporary expansion that applies through at least 2025 (ABLE National Resource Center, 2022). While only the first \$100,000 in an ABLE account is disregarded in SSI, individuals whose excess ABLE account balance exceeds SSI asset limits retain Medicaid eligibility as long as the value of other assets remain below the SSI resource limit (ABLE Act of 2014, 2014; Social Security Administration, 2022i).

## BOX 4: PLAN TO ACHIEVE SELF-SUPPORT (PASS)

SSI recipients who are working or are planning on entering the workforce might also benefit from dedicating DCT funds toward expenses identified in a current or new Plan to Achieve Self-Support (PASS). Income used on expenditures identified and approved by SSA administrators through PASS applications do not count as income for determining SSI benefits, and any purchases made through this pathway are not included as assets. Income set aside in this manner through a PASS is used to pay for goods and services needed to reach a work goal, such as education, training, child care, or purchasing work-related equipment. While a broad range of expenditures can be covered by PASS participation, all expenditures must be approved prior to purchase through an application for a PASS submitted to SSA (Social Security Administration, 2022j). The availability of PASS may offer DCT programs a way to protect SSI benefits for SSI recipients or applicants who are already working or planning to enter the workforce, and who already have income or access to funds that may, in combination with DCTs, exceed the maximum annual ABLE contribution amount (currently \$16,000 plus up to \$13,590 in contributions by the ABLE account holder). The ABLE National Resource Center suggests that it may benefit SSI recipients or applicants to use PASSes to pay these types of anticipated work-related expenses, while using ABLE accounts to purchase other items (ABLE National Resource Center, 2018). Benefit counselors can help SSI recipients work with SSA administrators to ensure that DCTs are dedicated to expenses identified in PASSes in order to exempt DCTs from income counted toward SSI eligibility and benefit receipt.

## **CONSIDERING GIFT INCOME OR OTHER POTENTIAL PAYMENT OPTIONS AS SHORT-TERM SOLUTIONS FOR DCT DISBURSEMENTS, WHILE ADVOCATING FOR REFUNDABLE TAX CREDITS AS A LONG-TERM GOAL**

None of the above payment options provide both complete protection against benefit loss and complete freedom for how to spend DCTs for all members of the larger population of young adults at risk of homelessness. They do, however, provide possibilities for short-term, small-scale solutions based on the needs and preferences of DCT program participants. The strategies mentioned here for program design, coupled with advocacy efforts to pass legislation designed to protect public benefits among DCT recipients, can be effective for small-scale pilot and demonstration projects, but implementing DCTs at a systemic level will require more expansive changes. As an alternative, targeted refundable tax credits at the local, state, or federal level offer a form of direct cash transfers that could protect public benefit receipt across all of the public benefit programs of interest in this paper, as well as most, if not all, public benefits analyzed throughout this toolkit.

Implementing DCT programs as demonstration projects, pilot projects, or research projects has been both necessary and successful, as these interventions have shown that DCT programs can be both helpful and viable approaches to supporting young adults at risk of homelessness. But even successful legislation that excludes DCT gift income from eligibility determinations among DCT recipients can be limited in scope. For example, Illinois does not allow for exemptions for DCTs from programs funded by general revenue funds, and both the New York and Illinois bills do not allow DCT income to be exempt when DCTs do not include a research component. If a long-term goal is to provide unconditional direct cash transfers to a much larger portion of young adults at risk of homelessness, a DCT in the form of a refundable tax credit would provide the most comprehensive protection against benefit loss.

Refundable tax credits not only allow individuals to reduce their income tax to zero, but also provide tax filers with cash assistance—or tax “refunds”—for the remaining amount of a tax credit above the amount needed to reduce income taxes to zero. The expanded child tax credit included in the American Rescue Plan Act in 2021, offered monthly, allows people to receive such a credit in advance of filing taxes, and provides a template for how such a credit could be constructed and targeted to specific populations. Distributing child tax credits in this way offers evidence that refundable tax credits are a “gold standard” in providing unrestricted cash assistance to targeted groups. Pushing for legislation to provide young adults at risk of or experiencing homelessness a refundable tax credit, potentially distributed monthly, at the federal, state, or city level (especially in cities that already operate income taxes), could have far-reaching positive effects on this target population.

In order for a refundable tax credit model to be successful, supportive programs like Volunteer Income Tax Assistance (VITA) programs will play critical roles in ensuring that targeted populations know how to file taxes and claim tax credits. This kind of support can also include guidance on how eligible individuals should list their addresses, an especially important consideration for young adults experiencing homelessness. Successful efforts to support uptake of a new tax credit would also involve outreach about the availability of the credit, trust-building to encourage eligible individuals to file for the credit, and support for opening bank accounts that will enable access to the credit among eligible filers.

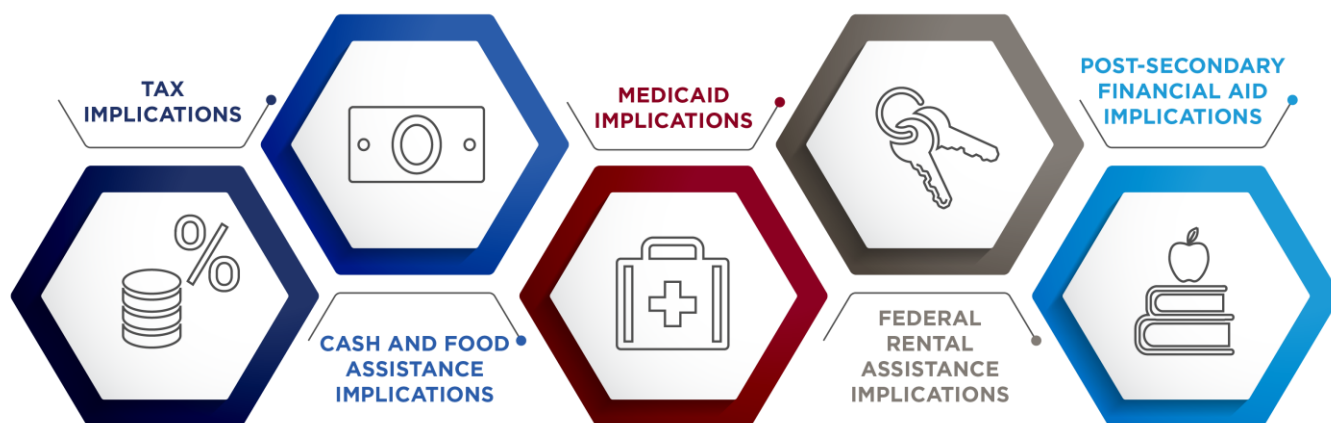
## CONCLUSION

Young adults at risk of or experiencing homelessness face numerous and often overwhelming additional challenges relative to the general population. Restrictive rules within the programs designed to support them in times of need can unfortunately add to these challenges or limit the availability of external supports such as DCTs. The analysis and recommendations in this paper are intended to support efforts to work within the programmatic structures of cash and food assistance programs, rather than as criticisms of the very existence of these programs. We hope the guidance offered here proves helpful for organizations or agencies seeking to implement DCT projects for young adults at risk of homelessness, and for researchers, advocates, or public benefit administrators seeking to better understand how DCT program participation can impact the receipt of cash assistance and food assistance.

This white paper is being written in an era of dynamic and near-constant policy change, in which eligibility and benefit rules governing cash and food assistance programs have shifted at such a pace that any policy analysis may be outdated shortly after it is written. This dynamic policy environment contains risks but also offers fruitful opportunities for experimentation. DCT programs focused on young adults at risk of homelessness, along with other similar programs such as Guaranteed Income (GI) pilots targeting other populations, represent the evolution of a policy approach decades in the making. These programs have also benefited from this shifting policy environment. As described above, the success of some DCT or GI pilots over the past several years may partially be attributable to the expansion of eligibility rules for important benefit programs of interest.

The recommendations in this paper are made with the assumption that COVID-era expansions are temporary. While we hope the COVID crisis continues to recede, we also hope that the lessons of policy experimentations in the past few years are not dismissed out of hand. The efforts to improve policy at a national, state, and local level to address populations in great need of services should continue. Young adults at risk of homelessness—especially those with disabilities or severe medical conditions—are among members of the U.S. populations in greatest need for the types of innovative policy change that DCT programs aspire to. We hope that DCT programs will expand from demonstration projects to larger-scale policy changes, supported by the guidance offered here.

**The toolkit is comprised of multiple well-researched, vetted, and user-friendly resources that cross the spectrum of taxes and public benefits to provide clear policy analyses and recommendations for state and local jurisdictions to implement and evaluate DCT projects for youth and young adults that maximize their positive outcomes and minimize risks to participants.**



# APPENDIX

## ACRONYMS AND ABBREVIATIONS

<b>ABLE</b>	Achieving a Better Life Experience
<b>AIAN</b>	American Indian/Alaska Native
<b>ARPA</b>	American Rescue Plan Act
<b>CBO</b>	Community Based Organization or Organizations (CBOs)
<b>CCDF</b>	Child Care Development Fund
<b>CEP</b>	Community Eligibility Provision
<b>DACA</b>	Deferred Action for Childhood Arrivals
<b>DCT</b>	Direct Cash Transfer, used interchangeably in this paper with GI
<b>EBT</b>	Electronic Benefit Transfer
<b>FFCRA</b>	Families First Coronavirus Response Act
<b>FNS</b>	Food and Nutrition Service
<b>FPL</b>	Federal poverty line
<b>FY</b>	Fiscal year
<b>GA</b>	General Assistance
<b>GI</b>	Guaranteed Income
<b>HCVP</b>	Housing Choice Voucher Program
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>LGBTQ+</b>	Lesbian, Gay, Bisexual, Trans, Queer, Plus
<b>MAGI</b>	Modified Adjusted Gross Income
<b>NSBP</b>	National School Breakfast Program, also known as SBP
<b>NSLP</b>	National School Lunch Program
<b>PASS</b>	Plan to Achieve Self Support
<b>PFD</b>	Permanent Fund Dividend
<b>QDE</b>	Qualified Disability Expense
<b>SBP</b>	School Breakfast Program, same as NSBP
<b>SEED</b>	Stockton Economic Empowerment Demonstration
<b>SFSP</b>	Summer Food Service Program
<b>SNAP</b>	Supplemental Nutrition Assistance Program
<b>SSA</b>	Social Security Administration
<b>SSDI</b>	Social Security Disability Insurance
<b>SSI</b>	Supplemental Security Income
<b>SSO</b>	Seamless Summer Option
<b>TANF</b>	Temporary Assistance to Needy Families
<b>USDA</b>	United States Department of Agriculture
<b>VITA</b>	Volunteer Income Tax Assistance
<b>WIC</b>	Special Supplemental Nutrition Program for Women, Infants, and Children

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# Direct Cash Transfers and Medicaid

Considerations for addressing benefit eligibility and access

By Liz Buck<sup>1</sup> and Stefanie Arbutina<sup>2</sup> | November 2022



For youth and young adults 18 to 24 years old experiencing homelessness, health insurance coverage—typically through Medicaid—is critical. During this important developmental period, youth and young adults experiencing homelessness often struggle to meet basic needs like food and shelter. As a result, they are at higher risk for further victimization, trauma, and high-risk behaviors (like increased substance use or survival sex) that can lead to poor health (Kull et al., 2022). The social inequities, adverse experiences, and financial strains that youth and young adults face prior to homelessness and during homelessness can lead to an increased risk of mental health, substance use disorders, and physical health issues, having wide-ranging negative consequences (Silva et al., 2016). Indigenous people, people of color (BIPOC), and lesbian, gay, bisexual, queer, transgender or gender nonconforming (LGBTQ+) youth have a higher risk of experiencing homelessness and have higher risk of involvement in the child welfare and the juvenile justice systems relative to their white, heterosexual, cisgender peers (Morton et al., 2017).

Direct cash transfers (DCTs) for youth and young adults experiencing homelessness offer promise for providing a pathway out of homelessness to stability and thriving. Direct cash transfers can positively impact a range of health and social outcomes for low-income individuals and households (Loeser et al., 2021). By design, direct cash transfers also provide a direct antidote and policy response to structural racism. Putting cash in the hands of youth who have been marginalized empowers them to make their own decisions, which aligns with principles of racial equity and justice (Point Source Youth, n.d.). To achieve systemic and sustainable solutions, though, jurisdictions must navigate designing cash transfer programs to ensure that access to other public benefits, including Medicaid, are not jeopardized by youths' increased income. This paper provides a summary of Medicaid eligibility for young people, describes the potential implications of direct cash transfers to Medicaid benefits, and outlines how state and local agencies can address risks to Medicaid benefits when implementing cash transfer programs.

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**It is important to understand the critical role Medicaid plays in providing health care coverage for young people experiencing homelessness and how housing instability and homelessness create significant challenges to accessing needed health care.**

## **HIGHLIGHTS:**

- Direct cash transfers (DCTs) for youth and young adults experiencing homelessness offer promise in providing a pathway out of homelessness to stability and thriving.
- DCTs hold little risk to Medicaid eligibility for young people enrolled in Medicaid—particularly for those who have their Medicaid eligibility determined under Modified Adjusted Gross Income (MAGI)—when designed as gifts.
- DCTs, however, can undermine Medicaid coverage, particularly for individuals who are exempt from MAGI-based income counting rules, including those who are blind or disabled.
- Jurisdictions considering implementing direct cash transfers should understand the implications for different eligibility categories under Medicaid and take precautions to ensure that individuals do not lose Medicaid coverage due to participation in a direct cash transfer program.
- This paper describes why jurisdictions are considering DCTs for young people experiencing homelessness, potential implications to Medicaid eligibility for participation in DCT programs, health access barriers for young people experiencing homelessness, and policy and practice changes to address risks to Medicaid eligibility and improve access to health care.

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## **MEDICAID PRIMER**

In order to identify the impact of DCTs on Medicaid eligibility, it is important to understand the critical role Medicaid plays in providing health care coverage for young people experiencing homelessness and how housing instability and homelessness create significant challenges to accessing needed health care. This section discusses both health insurance coverage issues related to Medicaid and broader issues related to health care access and equity.

Medicaid—a joint federal and state-funded health insurance program for low-income and disabled individuals—is the single largest source of health care coverage in the United States (Centers for Medicare and Medicaid Services, Eligibility, n.d.). Each state administers its own Medicaid program in conjunction with the federal [Centers for Medicare & Medicaid Services \(CMS\)](#). Since each state administers its own Medicaid program, eligibility, coverage, and services vary between states.

States are required to provide Medicaid coverage to certain groups, including low-income families, people with disabilities, and qualifying children and pregnant individuals (Centers for Medicare and Medicaid Services, List of Eligibility Groups, n.d.). In addition to these populations, children and youth receiving Title IV-E foster care, guardianship, or adoption assistance payments are automatically eligible for Medicaid (Centers for Medicare and Medicaid Services,

Implementation Guide, n.d.). Beyond the mandatory populations, state Medicaid programs have the option to cover other populations.

## **MEDICAID ELIGIBILITY: COVERED GROUPS AND METHODOLOGIES**

Under the Medicaid program, youth who are at risk of homelessness or experience homelessness may fall into one or more eligibility categories. Some categories depend on income while others relate to an individual's clinical or functional status.

### **INCOME-BASED ELIGIBILITY**

Most individuals are determined to be eligible for Medicaid based on Modified Adjusted Gross Income (MAGI). MAGI includes Adjusted Gross Income (Internal Revenue Service, Adjusted Gross Income, n.d.), plus any untaxed foreign income, nontaxable Social Security benefits, and tax-exempt interest (Centers for Medicare and Medicaid Services, Modified Adjusted Gross Income, n.d.). The MAGI calculation does not include Supplemental Security Income (SSI) or gift income but does include Social Security Disability Income (SSDI; Centers for Medicare and Medicaid Services, What to include as income?, n.d.). The MAGI calculation includes a 5% income disregard, and it does not include an asset test (Centers for Medicare and Medicaid Services, Eligibility, n.d.). Since gift income is excluded from the MAGI calculation, youth and young adults whose eligibility is determined through MAGI will not risk benefit loss if they participate in a direct cash transfer program. It is critical that jurisdictions understand how participants in direct cash transfer programs are eligible for Medicaid to determine potential risk to Medicaid benefits, since income-based eligibility and other eligibility based on clinical or functional status have different determinations.

For children (defined in Medicaid as being under 19 years of age) who do not reside with their parents (for example, unaccompanied homeless youth or young people living with grandparents), a child's MAGI-based income is counted in determining the child's eligibility regardless of whether the child's income meets the tax filing threshold (Centers for Medicare and Medicaid Services, 2020).

Federal regulations require that MAGI-based Medicaid eligibility be recertified annually.<sup>3</sup> There is no time limit for how long individuals can receive Medicaid benefits, provided they continue to meet eligibility criteria. States are required to recertify Medicaid eligibility for program participants on at least an annual basis.

### **ELIGIBILITY BASED ON DISABILITY**

Over 10 million people qualify for Medicaid due to a disability. The disability pathway for Medicaid eligibility includes individuals who have disabling conditions, including those with physical conditions (such as traumatic brain injury), intellectual or developmental disabilities (for example, autism), and serious behavioral disorders or mental illness (for example, schizophrenia or bipolar disorder). People with disabilities may be eligible for Medicaid through this pathway, but they may also be eligible through other pathways, including income eligibility or being medically needy (Medicaid and CHIP Payment and Access Commission, People with Disabilities, n.d.).

In most states, people enrolled in Supplemental Security Income (SSI) are a mandatory population and therefore automatically enrolled in state Medicaid programs. Nearly all Medicaid programs use the same definition of disability that SSI uses (Medicaid and CHIP Payment and Access Commission, People with Disabilities, n.d.). For SSI determination, income

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<sup>3</sup> Periodic renewal of Medicaid Eligibility, [42 C.F.R. §435.916](#).

includes both earned and unearned income, and parental or spousal income when the applicant resides in the same home. Income also includes “in-kind income,” or food or shelter provided for free or less than the market value.

The authors found that individuals who have Medicaid due to their disability may be at risk of losing their benefits if they are participating in a DCT program, because unearned income (including gift income) is included in SSI determination. (See more information on SSI in a companion paper that examines potential impact for DCT programs written by the National Center for Children in Poverty.)

Additional information related to key legislative changes that impact Medicaid eligibility for subpopulations that are at risk of homelessness is included in Appendix A.

## **OTHER NON-MAGI ELIGIBILITY GROUPS**

### **YOUTH IN OR FORMERLY IN FOSTER CARE**

Youth who receive Title IV-E Foster Care, Guardianship, or Adoption Assistance funds are categorically eligible for Medicaid until age 21, regardless of household income. Youth or young adults in foster care are also eligible, even if they remain in the legal custody of their parents (Child Welfare Information Gateway and Children’s Bureau, 2022).

Youth who have aged out of foster care are eligible for Medicaid until age 26, regardless of income. Currently, they must have been enrolled in Medicaid at the time they “aged out” of foster care and reside in the state in which they aged out. States have the option to provide Medicaid to youth who reached independence in other states, but not all have done so. Pursuant to the SUPPORT for Families and Communities Act of 2018, starting in 2023, states will be required to provide Medicaid coverage to youth formerly in foster care to age 26, regardless of the state in which they aged out (Purington, 2018).

We do not see a risk to Medicaid eligibility under a DCT since this is a categorical eligibility that is not calculated based on income.

## **OTHER GROUPS OF INTEREST**

### **IMMIGRANTS AND REFUGEES**

Legal permanent residents may be eligible for Medicaid after 5 years of residency, depending on their state of residence. Certain groups of immigrants, including refugees and asylees, are generally eligible when entering the country and are not included under a 5-year requirement. States may also choose to provide coverage to immigrant and refugee children and pregnant individuals during the 5-year waiting period (Medicaid and CHIP Payment and Access Commission, Non-citizens, n.d.). Undocumented immigrants are generally not permitted to enroll in federally funded Medicaid; however, they may be eligible for emergency medical assistance to address a specific medical need (Medicaid and CHIP Payment and Access Commission, Non-citizens, n.d.). Many states cover undocumented immigrants with state funds.

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# HEALTH CARE ACCESS AND UTILIZATION FOR YOUNG PEOPLE



**The experience of homelessness and experiences that lead to homelessness can make it more difficult to focus on health care needs, secure transportation to office-based services, access mental health services, or trust health care providers.**

Homelessness for young people is wide reaching but traditionally undercounted and hidden (Morton et al., 2017). The most comprehensive analysis of youth homelessness found that one in 10 American young adults ages 18–25 and at least one in 30 adolescents ages 13–17 experience some form of homelessness in a year (Morton et al., 2017).

Young people who are homeless or at risk of being homeless have a greater need for health care services. However, being homeless makes it harder to access health care. For example, the experience of homelessness and experiences that lead to homelessness (including familial rejection or being kicked out of the home) can make it more difficult to focus on health care needs, secure transportation to office-based services, access mental health services, or trust health care providers. Recertifying Medicaid eligibility, which may require documentation or identification, can also be challenging for youth experiencing homelessness. While there are examples of strong partnerships between health care providers, youth housing providers, and homeless service systems that bridge health access issues, there is a need to expand and scale these partnerships nationally to meet the overall need (National LGBTQIA+ Health Education Center, 2020).

Below are specific subpopulations that represent youth and young adults who are experiencing homelessness, along with Medicaid eligibility considerations.

## **LGBTQ, BLACK, AND HISPANIC YOUTH**

LGBTQ, Black, and Hispanic youth are disproportionately represented in the homeless population. LGBTQ youth have a 120% higher risk of reporting homelessness compared to non-LGBTQ youth. Black youth have an 83% higher risk of experiencing homelessness compared to white youth. Hispanic youth have a 33% higher risk of reporting homelessness compared to white youth (Morton et al., 2017). Structural racism, including racism within the homeless service system, contributes to the higher rates of homelessness among Black and Hispanic youth. In an analysis of the homeless service systems in eight cities, Black young adults aged 18 to 24 were 69% more likely to reenter homelessness than their white counterparts (Olivet et al., 2021).



### **SINGLE YOUNG ADULTS EXPERIENCING HOMELESSNESS**

In a single year, nearly one in 10 young adults ages 18–25 experience some form of homelessness (Morton et al., 2017). The Affordable Care Act expanded Medicaid eligibility for this population. For example, through MAGI calculations, if an individual is at least 19 years old, earns less than 133% of the federal poverty level (FPL) annually, and lives in a state that has expanded Medicaid to adults, then they are eligible for Medicaid (Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, n.d.). In 2022, \$18,075 is 133% of the FPL for a single individual (American Council on Aging, 2022). If an individual in this age category has been found disabled, they would also qualify for Medicaid, regardless of the state’s expansion. Those who live in states that have not expanded Medicaid and are not disabled may be ineligible unless they fall into another MAGI category.

### **UNACCOMPANIED MINORS EXPERIENCING HOMELESSNESS**

In a single year, one in 30 adolescents between the ages of 13 and 17 experience some form of homelessness (Morton et al., 2017). Many unaccompanied minors in this category are eligible for Medicaid due to income thresholds. For example, youth under age 19 and those earning less than 133% of the FPL annually may be eligible (many states cover children under 19 at higher income levels under Medicaid or CHIP; Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, n.d.).

### **CURRENT OR FORMER FOSTER CARE YOUTH/YOUNG ADULTS**

As a population, current or former foster youth have an increased risk of homelessness. Insights from surveys of youth across 22 counties found that nearly one-third of youth experiencing homelessness had prior experience in foster care (Morton et al., 2017). Despite this, there are low rates of Medicaid enrollment for former foster care youth. One common barrier to enrollment of former foster care youth is the lack of outreach services and the youths’ subsequent lack of awareness of Medicaid eligibility (Bullinger & Meinhofer, 2021). The estimated rate of uninsurance for former foster care youth at age 19 is between 16 and 53% (CMS All State SOTA Call, 2017). For context, looking at 2019 data, the uninsurance rate of people ages 19–26 is 15.6% (Conway, 2020).

### **PREGNANT AND PARENTING YOUTH AND YOUNG ADULTS**

Unmarried parenting youth have a 200% higher risk of experiencing homelessness compared to other youth (Morton et al., 2017). Pregnant women at or below 133% of the federal poverty level are a mandatory Medicaid eligibility group. States are required to extend eligibility for 60 days postpartum and now have the option to extend coverage postpartum for up to 12 months (Medicaid and CHIP Payment and Access Commission, Pregnant Women, n.d.).

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# DIRECT CASH TRANSFERS, MEDICAID, AND HEALTH CARE ACCESS FOR YOUNG PEOPLE

If eligibility is calculated under MAGI and if the direct cash transfer is administered as a gift, there is generally a low risk of Medicaid benefit loss for participants in direct cash transfer programs for youth and young adults. There is a higher risk of benefit loss for people who are eligible under Medicaid due to a disability, a non-MAGI calculation. This section outlines the impact of direct cash transfers on Medicaid benefits and health access, as well as considerations for reducing the risk to benefit loss and policy/practice recommendations to improve connections to health care for young people at risk of or experiencing homelessness.

## ADMINISTERING DIRECT CASH TRANSFERS AS GIFTS

### **If administered as a gift, direct cash transfers should not be included in MAGI calculations for Medicaid eligibility.**

The Internal Revenue Service (IRS) defines a gift as “property (including money) or the use of or income from property (given) without expecting to receive something of at least equal value in return” (Internal Revenue Service, Gift Tax, n.d.). A MAGI determination is reflective of modified adjusted income under the IRS, so the IRS definition of a gift applies to MAGI as well. Gift limitations tend to apply to the giver (either an individual or organization) and not the recipient.

### **For beneficiaries with eligibility linked to SSI eligibility, gift income may be included in the non-MAGI calculation.**

However, in states with the same eligibility rules for SSI and Medicaid, Medicaid can continue when income exceeds the threshold to get SSI. In those circumstances, the individual needs to have been eligible for SSI for at least 1 month, still be disabled, and must “meet all other eligibility rules and have gross earned income insufficient to replace SSI, Medicaid and any publicly funded attendant care” (Social Security Administration, n.d.).

If these criteria are not met, or if the state has different rules, individuals should explore whether they can obtain coverage through a MAGI group. As Medicaid eligibility is based on monthly income or disability status, none of the items discussed below (apart from household status) appear to impact a young person’s ability to access that benefit.

Overall, we found that people whose Medicaid eligibility is based on income and calculated under MAGI or who are in a categorical group including youth in or formerly in foster care have little risk of losing their benefits if receiving a DCT as a gift. We found that individuals who receive Medicaid through a disability would be most at risk for benefit loss under a DCT program.

Some jurisdictions are also considering using the IRS’ general welfare exclusion as a mechanism for direct cash transfers.

## DISBURSEMENT

The amount and frequency of disbursement of benefits (for example, lump sum, monthly regularized payments, or a combination) appear to be of low risk to Medicaid eligibility as calculated through MAGI. The risk is low because eligibility is based on monthly income and gift income is not included in the calculation.

However, if a young person is eligible for Medicaid under a disability status not calculated under MAGI, eligibility may be impacted by amount and frequency of disbursement, as monthly income and source (government or nonprofit) are both considered for eligibility purposes.

## **SOURCE OF FUNDING**

The source of funding (whether public, private, or a combination of these sources) does not impact MAGI-based eligibility but may impact disability-based non-MAGI eligibility.

When considering the funding source and parameters of the program, jurisdictions should consider structuring the arrangement so that entities that provide the direct cash transfer do not expect anything of equal or greater value in return. This will ensure that the cash transfer maintains its status as a gift.

## **HOUSEHOLD STATUS**

A difference in recipient household composition can affect eligibility for Medicaid, as eligibility income thresholds for both MAGI and non-MAGI populations vary based on the number of people in the household. Generally, as household size increases, the income threshold increases.

## **CONDITIONS**

There may be a risk to Medicaid eligibility related to conditional direct cash transfers. For example, requirements (such as mandatory participation in services) may change the nature of the direct cash transfer as a gift, since a requirement creates a dynamic that a certain behavior/outcome is expected.

Requiring services for interventions related to housing is counter to Housing First principles. These principles provide an evidence-based approach that lessens barriers to housing access and does not place treatment or service requirements as a condition for housing (U.S. Department of Housing and Urban Development, n.d.). For jurisdictions that are developing these programs, unconditional cash transfers appear to pose little risk for a young person to lose Medicaid coverage when compared to a conditional transfer; however, the considerations discussed above must be addressed.

## **EVALUATION**

If participation in research is not mandatory, there is low risk that a research/evaluative component to the program will impact Medicaid eligibility.

# CONSIDERATIONS FOR ENSURING MEDICAID BENEFITS WITH DCTS



**The three key approaches that may mitigate the risk of benefit loss are the use of income disregard waivers, pursuing a legislative approach, and establishing a Hold Harmless fund.**

While the risk of losing Medicaid benefits is low for most categories of young adults who receive direct cash transfers, there are three key approaches that may mitigate the risk of benefit loss. For each of these approaches, it is important to consider the feasibility, effectiveness, and state and local policy environment in which it will be employed.

## **USE INCOME DISREGARD WAIVERS**

An entity implementing DCTs could request that the income of program recipients be disregarded (not included) in benefit eligibility determinations. This would require completing such a request letter indicating the reason for the request, the specific population, benefits included, and the applicable time-period for which income should be disregarded.

In some cases, however, requesting that income be disregarded may prove ineffective for protecting Medicaid eligibility. As stated previously, the MAGI calculation used for income-based eligibility includes a 5% income disregard. As such, it does not permit other state

or population-specific income disregards (Centers for Medicare and Medicaid Services, Eligibility, n.d.). For jurisdictions that have attempted to use income disregards to mitigate against benefit loss, they have been requested of cities or other smaller units of government. As Medicaid is a joint federal-state program, a request would not be granted without approval from the Centers for Medicare and Medicaid Services. It is critically important to work with relevant state agencies (including the state Medicaid agency) to explore potential feasibility and support of direct cash transfer programs as well as providing guidance and training materials for frontline workers interacting with people receiving direct cash transfers.

States can make changes to Medicaid program requirements and services using State Plan Amendments, which require CMS approval. Medicaid agencies may consider the use of a State Plan Amendment (Centers for Medicare and Medicaid Services, Medicaid State Plan Amendments, n.d.) in lieu of an income disregard to waive gift income for participants with non-MAGI eligibility based on disability.

## **PURSUE A LEGISLATIVE APPROACH**

Another way to reduce the risk of Medicaid loss is to pursue state legislation exempting DCT beneficiaries from Medicaid income requirements. This change would require CMS approval for MAGI populations. The political environment in each state can also have significant impacts on the likelihood of a bill's passage and subsequent enactment, so passage of legislation will depend on the political priorities of state legislators.

## **ESTABLISH A HOLD HARMLESS FUND**

An entity can opt to establish a Hold Harmless Fund, which is a fund that is set up to offset the cost of benefits lost due to a DCT. If a program participant loses Medicaid coverage because of the DCT, money from a Hold Harmless Fund could be used to purchase health insurance through the Health Insurance Marketplace operated by the Department of Health and Human Services or through a state marketplace. Depending on income and state of residence, individuals purchasing insurance through the Marketplace may be eligible for subsidies to reduce out-of-pocket costs. Hold Harmless Funds may also be used to cover the cost of individual health care services, such as dental exams and cleaning, without the use of insurance.

Potential uncertainties or barriers involving the use of Hold Harmless Funds to cover health insurance and health services largely involve the variability in cost. Insurance premiums differ based on state of residence and income level. Out-of-pocket medical expenses, like copays, visits, procedures not covered by insurance, and prescription medications, can vary widely and may be much higher than what a Hold Harmless Fund can cover. While other benefits could be more easily covered under a Hold Harmless Fund, the volatility and unpredictability of health care costs would not act as a replacement or solution for Medicaid coverage losses. Moreover, as we find that there is greater risk to benefit loss for those who are Medicaid-eligible due to disability, we also believe this pathway to be insufficient to cover the range of health care needs for individuals with disabilities.

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## **ADDITIONAL POLICY AND PRACTICE RECOMMENDATIONS**

In addition to preserving existing Medicaid benefits, entities implementing DCT programs with youth and young adults experiencing homelessness may also consider opportunities to increase and maintain Medicaid enrollment, while improving overall access and utilization of health care services. We offer the following recommendations to achieve this:

### **DEVELOP GIFT INCOME GUIDANCE AT THE FEDERAL AND STATE LEVEL**

State and federal Medicaid agencies should consider issuing clear, specific guidance on gift income and its impact on eligibility. This could eliminate confusion for both beneficiaries and entities overseeing DCT programs while highlighting potential limitations related to amount, source, and disbursement method. For example, the New York Medicaid agency developed clarifying guidance related to exemptions for 9/11 funds in relationship to impact on Medicaid eligibility. Similar policy clarifications that cite relevant regulations and guidance documents can provide clear directives to Medicaid beneficiaries or those eligible for Medicaid, state Medicaid staff, and frontline workers. State Medicaid agencies can implement an “Operations Memo” that can be delivered to local county offices for frontline staff. This memo would clarify how workers should proceed with interpreting gifts.

### **IMPLEMENT YOUTH-SPECIFIC SUPPORTIVE SERVICES**

Entities implementing DCTs should ensure that services are low barrier, trauma informed, and voluntary for participants. Peer workers and health navigators models offer promise in connecting this population to services related to the specific barriers and challenges faced by young people experiencing homelessness. Individuals who know the state’s eligibility guidelines, as well as enrollment and recertification processes, could be particularly beneficial to young people struggling to navigate the

complexities of applying for and maintaining Medicaid coverage. These staff could also assist with locating and connecting to providers who can meet young people's individual health care needs.

In addition to enrollment and access, peer workers and health navigators can also promote health literacy with young adults. Increasing young adults' personal health literacy, "the ability to find, understand, and use health information and services," can provide them with an understanding of the value of regular health care as well as the tools they need to access services and advocate for themselves (Centers for Disease Control and Prevention, 2022).

## **EXPAND HEALTH CARE MODELS THAT ARE LOW BARRIER AND INFORMED BY YOUNG ADULTS**

To improve young adults' utilization of health care services, entities implementing DCT programs should consider collaborating with health care providers and payers to ensure that services provided are low barrier, culturally competent, and affirming of youth identities. This may involve providing additional guidance, training, and incentives to ensure providers are able to meet the unique needs of all young people.

Entities overseeing DCT programs may consider interviewing potential and past program participants to understand their needs and desires for health care services to ensure the programs are informed by those being served. Engaging young people with lived experience in the design process can promote the development of a comprehensive array of effective, accessible health care and supportive services.

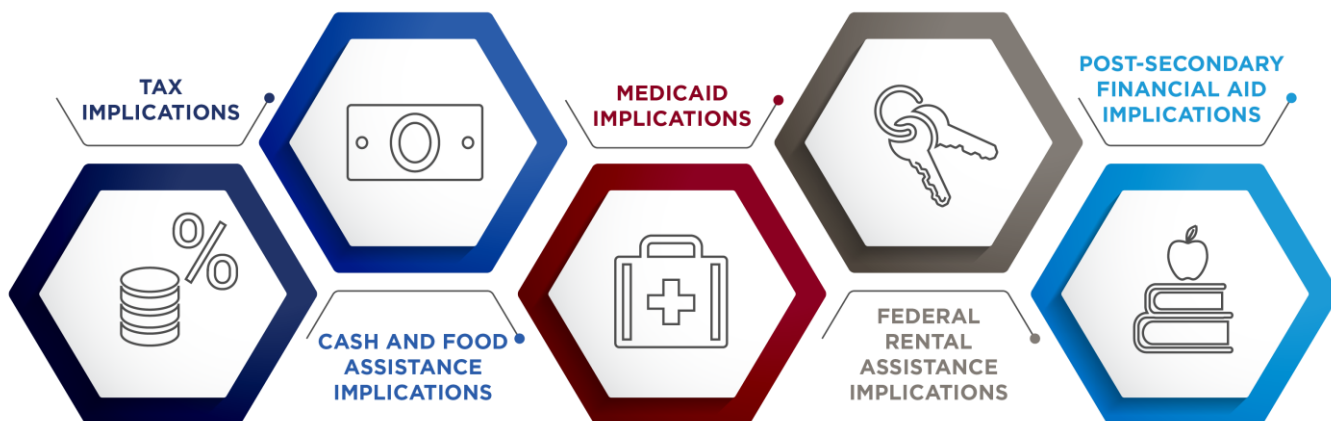
## **IMPROVE COORDINATION BETWEEN HEALTH CARE ORGANIZATIONS AND HOUSING PROVIDERS**

Models of care that most effectively met the needs of young adults require strong collaboration between health care organizations and housing providers (National LGBTQIA+ Health Education Center, 2020). Best practices for these local partnerships include making these services closer and more connected to where young people are located, and include colocating health and housing services, minimizing transportation barriers through bus passes, conducting street outreach, and delivering services through mobile units (National LGBTQIA+ Health Education Center, 2020). Additional support, training, and technical assistance can further the expansion of these partnerships. On a federal level, CMS and the U.S. Department of Housing and Urban Development (HUD) can collaborate to provide additional support and guidance to state Medicaid agencies to encourage these partnerships. HUD can also encourage or require collaboration between Medicaid agencies and health care providers that serve youth in jurisdictions funded under the Youth Homelessness Demonstration Program (YHDP), a HUD-funded initiative that supports local communities in developing coordinated responses to youth homelessness.

# CONCLUSION

Direct cash transfers are a promising intervention that have shown the ability to reduce days experiencing homelessness (Foundations for Social Change, 2021), improve savings (Foundations for Social Change, 2021), and improve mental health (West et al., 2021). If direct cash transfers are implemented as gifts, youth face little risk to eligibility for Medicaid benefits if their eligibility is calculated through MAGI. People who are eligible due to disability in a non-MAGI group do have some risk of losing benefits. It will be important for entities administering direct cash transfer programs to understand implications for Medicaid eligibility and mitigate risk of potential benefits loss specifically for people who have disabilities and are eligible under a non-MAGI calculation. Jurisdictions and entities implementing direct cash transfer programs should provide benefit information and advise youth who are eligible for DCTs to determine potential benefit loss and make determinations on whether to participate in the program. State Medicaid agencies can consider state plan benefits as one mechanism to ensure Medicaid eligibility for non-MAGI populations. As Medicaid is a federally funded and state-administered program, state Medicaid agencies and CMS will need to be key partners in the process and CMS will need to approve the state plan amendment. State agencies can play a critical role in providing guidance and directives to state and local organizations on appropriate interpretation of benefits.

The toolkit is comprised of multiple well-researched, vetted, and user-friendly resources that cross the spectrum of taxes and public benefits to provide clear policy analyses and recommendations for state and local jurisdictions to implement and evaluate DCT projects for youth and young adults that maximize their positive outcomes and minimize risks to participants.



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# APPENDIX A.

## OVERVIEW OF RECENT LEGISLATIVE CHANGES THAT IMPACT MEDICAID ELIGIBILITY FOR SUBPOPULATIONS AT HIGH RISK OF HOMELESSNESS

The Patient Protection and Affordable Care Act of 2010 extended Medicaid eligibility to all adults with incomes below 133% of the federal poverty level (FPL) and limited redetermination to once per year. In addition, children can stay on their parents' insurance until age 26, and youth formerly in foster care can maintain Medicaid eligibility to age 26 regardless of income.

In 2012, the U.S. Supreme Court declared mandatory Medicaid expansion unconstitutional, leaving the choice to expand up to individual states. States now have the option to cover childless, nondisabled adults up to 133% of the FPL. As of March 2022, 38 states, Washington, D.C., and three territories—Guam, Puerto Rico, and the U.S. Virgin Islands—have expanded Medicaid (Kaiser Family Foundation, 2022).

The SUPPORT for Families and Communities Act of 2018 guarantees Medicaid coverage to youth formerly in foster care to age 26 regardless of the state they lived in when they aged out of foster care. The provision goes into effect in 2023 (Purington, 2018).

The Public Health Emergency (PHE) first declared on January 27, 2020 in response to the COVID-19 pandemic, and renewed several times during the pandemic, requires states to maintain Medicaid enrollment for individuals enrolled on or since March 18, 2020 for the duration of the Public Health Emergency (among other flexibilities granted to states). The PHE is currently set to expire in mid-July 2022. While states will soon be in a process to “unwind” the continuous coverage of people on Medicaid, many people are at risk of being removed from Medicaid rolls for reasons including income changes and having moved during the pandemic (Wilke et al., 2022).

The Families First Coronavirus Response Act (FFCRA) of 2020, which was updated by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, provides states with a temporary FMAP increase and coverage for COVID-19 testing.

The American Rescue Plan Act of 2021, also enacted as a COVID-19 recovery measure, provides states with the option to extend postpartum Medicaid coverage, which is normally 60 days, to a full year. This option is available to states from 2022 to 2027 (Ranji et al., 2021).



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# Direct Cash Transfers and Federal Rental Assistance

The Impact of Direct Cash Transfers and Federal Rental Assistance: Implications Among Young Adults at Risk of or Experiencing Homelessness

By Ann Oliva<sup>1</sup> and Sonya Acosta<sup>2</sup> | November 2022



Housing is a foundational component of well-being, and securing a safe, stable home for youth experiencing homelessness should be a key goal for communities. To help people experiencing or at risk of homelessness afford housing, the federal government has several programs. These programs also allow communities to expand the supply of homes that people with low incomes can afford. While many of these programs have been proven to be effective, the federal government does not provide adequate funding or resources to address need. Most systems have significant gaps in the supports available to young people, leaving many youth and young adults languishing in homelessness and housing instability and exposed to several associated adversities. Often, the programs available are crisis driven rather than choice driven. They provide insufficient support for young people to move swiftly to safe, permanent housing and get on pathways to long-term thriving. To this end, direct cash transfers offer a promising solution.

Cash-based assistance, such as direct cash transfer (DCT) programs, have increased in the U.S. during the COVID-19 pandemic as communities have received flexible funding to help individuals and families deal with the financial and health consequences of the pandemic. Beyond the pandemic context, DCTs can be an important tool to supplement low wages in a way that honors individuals' choice and dignity. Given DCTs' flexibility and reduced bureaucracy, they could be especially helpful for youth experiencing homelessness. Young adults with low incomes already face challenges renting homes because of their limited rental and credit histories, and the additional documentation requirements of rental assistance programs pose a barrier to the programs. This paper provides information for DCT program designers and policymakers to help them understand the potential relationship between a DCT and federal rental assistance programs administered by the U.S. Department of Housing and Urban Development (HUD).

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Federally affordable housing and homelessness programs are critically underfunded. Therefore, young adults have limited access to these resources, which makes DCTs an important alternative to traditional housing subsidies for many young people.

**HIGHLIGHTS:**

- Agencies implementing direct cash transfers (DCTs) should work closely with their local continuum of care and public housing agency to take advantage of regulatory flexibilities and to ensure that DCTs do not create barriers for young people to access these resources when they are available.
- DCTs provided to youth and young adults do not impact eligibility for HUD’s homelessness programs, except for homelessness prevention programs where DCTs may be counted as income.
- Federal affordable housing and homelessness programs are critically underfunded. Therefore, young adults have limited access to these resources, which makes DCTs an important alternative to traditional housing subsidies for many young people.
- How DCTs are designed and structured for tax and income purposes impacts eligibility and the amount participants pay toward rent for federal rental assistance programs (like Housing Choice Vouchers).

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## FEDERAL RENTAL ASSISTANCE PRIMER

### ABSTRACT

DCT programs can be designed to ensure participating youth experiencing homelessness can still access federal rental assistance or provide an alternative to such assistance, which can be difficult for young adults to access due to limited funding and some programmatic barriers. This paper provides an overview of HUD homelessness and rental assistance programs, with an emphasis on the Housing Choice Voucher program, to inform decision makers as they design programs to effectively help youth experiencing homelessness.

### Acronyms and Abbreviations

HUD	U.S. Department of Housing and Urban Development
DCT	Direct Cash Transfer
HCV	Housing Choice Voucher program
CoC	Continuum of Care program
ESG	Emergency Solutions Grants program
PSH	Permanent Supportive Housing
FUP	Family Unification Program
FYI	Foster Youth to Independence
HOTMA	Housing Opportunity Through Modernization Act of 2016
YHDP	Youth Homelessness Demonstration Project

# OVERVIEW OF FEDERAL RENTAL ASSISTANCE PROGRAMS



Rental assistance helps bridge the gap between someone's income and the cost of housing. Assistance for people at risk of or experiencing homelessness is generally focused on helping them rent, not purchase, a home.

Rental assistance helps bridge the gap between someone's income and the cost of housing. Assistance for people at risk of or experiencing homelessness is generally focused on helping them rent, not purchase, a home. Some states, cities, and counties may fund rental assistance programs of their own, but most resources come from federal programs that are then administered locally. Rental assistance can be short, medium, or long term, depending on the program and needs of the individual or family. Assistance can be either tenant-based, meaning the assistance is tied to and moves with the household (portability to other geographic areas is allowed with some limitations), or project-based, where the subsidy is tied to a specific home.

People at risk of or experiencing homelessness may be able to access housing assistance through the local homelessness system. They, and other households with low incomes, may also be able to receive help through several federal rental assistance programs, the largest of which is the Housing Choice Voucher (HCV) program, through local housing agencies. While this paper will primarily focus on the implications of DCTs for the HCV program, this section will also provide an overview of other programs.<sup>3</sup>

This paper provides a broad overview of these resources to help DCT program designers and policymakers understand potential interactions between programs and is not intended to provide detailed program administration guidance for HUD's programs to help practitioners. Each program section includes links to relevant guidance and program regulations for the reader's reference.

## RENTAL ASSISTANCE THROUGH HOMELESSNESS SYSTEMS

HUD homelessness programs are one avenue through which rental assistance can be provided to youth and young adults experiencing homelessness (U.S. Department of Housing and Urban Development, n.d.-a; n.d.-b; 2019). These programs include the Continuum of Care (CoC) program and the Emergency Solutions Grants (ESG) program. ESG funds can also be used to provide rental assistance for youth and young adults at risk of homelessness (U.S. Department of Housing and Urban Development, 2012) through homelessness prevention programs. Although HUD's homeless programs currently receive more than \$3 billion in funding annually, they fall far short of meeting the full need for affordable housing and services for people experiencing or at risk of homelessness nationally. In 2020, more than 580,000 people experienced homelessness on a single night in January, nearly 200,000 of whom were unsheltered (Henry et al., 2021). Nearly 33,000 unaccompanied young

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<sup>3</sup> It is important to note that this paper includes information on permanent, authorized rental assistance programs. It does not discuss programs funded as part of COVID-19 relief. For more information about COVID-19 relief programs, see HUD's web page: [https://www.hud.gov/coronavirus/resources\\_for\\_renters](https://www.hud.gov/coronavirus/resources_for_renters) and <https://www.hud.gov/ehv>.

adults aged 18 to 24 (about 8% of individuals in this category) were counted in that 2020 count, with another 7,335 youth experiencing homelessness as parents. Data from the national Voices of Youth Count study indicate that these figures are likely higher, with youth homelessness being more hidden. The study indicates that one in 10 young people 18 to 25 years old experienced some form of homelessness, including sleeping on the streets, in shelters, running away, being kicked out, and couch surfing over the course of the year prior (Morton et al., 2017).

**Rapid rehousing** includes voluntary supportive services, such as intensive case management, housing navigation, and physical and behavioral health resources, and short- or medium-term rental assistance that can last up to 24 months depending on the needs of the youth/young adult. In rapid rehousing programs, the lease is signed by the program participant, so the unit is permanent although the rental assistance is short term. Unlike other rental assistance programs, rental assistance provided through a rapid rehousing program can be flexible and change over the individual's tenure in the program.

#### KEY REGULATIONS AND GUIDANCE

- [HUD's Continuum of Care Program Interim Rule and Introduction to CoC](#)
- [HUD's ESG Program Interim Rule](#)
- [Youth Homelessness Demonstration Program Resources](#)
- [Determining Homeless Status of Youth](#)
- [Defining Homeless Final Rule](#)
- [Criteria for Definition of At Risk of Homelessness](#)

For example, a young person may enter the program with no income and have 100% of their rent paid for by the program for the first 6 months. In this scenario, a young person may become employed or begin to receive DCT payments 6 months into the program and can begin gradually paying a share of the rent over their remaining 18 months in the program. At exit from the program, the program participant will pay the full rent amount (participants may be extended in the program under certain circumstances). Rapid rehousing can be a particularly effective approach for young adults because it provides both services and a subsidy to support a young person's changing needs. In addition, the program can be flexible throughout the young person's participation. Youth entering rapid re-housing programs funded by CoC or ESG must be experiencing homelessness according to HUD's definition but are not required by law to meet other eligibility criteria regarding income or disability status. Some programs may impose additional targeting for whom they serve based on what is needed in the community (but cannot discriminate against any protected classes).

**Permanent Supportive Housing (PSH)** is housing that includes intensive supportive services based on what a program participant wants and needs and that has no time limitation. PSH can be based in a specific building or units (project based) or can include vouchers that allow the program participant to select a unit in an area of their choice (tenant based) so long as the rent is reasonable and at or below the rent estimates for that area as determined by HUD (fair market rents). PSH tenant-based subsidies are generally limited to specific geographic areas because local supportive services are paired with the assistance.

To be eligible for PSH, the youth or young adult must be experiencing homelessness according to HUD's definition and have a disability (or be in a family in which one adult or child has a disability). As with rapid re-housing, there is no eligibility criteria based on the person's income. As with other HUD rental assistance programs, households in PSH generally pay 30% of their income towards rent. As discussed in more detail later in this paper, this income could include DCT payments. In some cases, HUD imposes additional eligibility criteria, including funding for programs that serve people experiencing chronic homelessness or young people. Some local program administrators may impose additional targeting for whom they serve based on what is needed in the community (but cannot discriminate against any protected classes).

**Homelessness prevention programs** that include short- or medium-term rental assistance can be funded through ESG. These programs can include housing relocation and stabilization services paired with rental assistance designed to keep a youth from entering shelter or otherwise becoming homeless. For example, a youth exiting foster care may be eligible for homelessness prevention assistance. In this case, the homelessness prevention program administrator must determine if the young person meets HUD's definition of "at-risk of homelessness" and if they have an income less than 30% of the area median income. Therefore, direct cash transfers may need to be considered to determine eligibility for a homelessness prevention program depending on how the direct cash transfer is structured.

## FEDERAL RENTAL ASSISTANCE PROGRAMS

Youth experiencing homelessness and households with low incomes can apply for rental assistance through several HUD programs that bridge the gap between income and rent. Though effective, these programs only reach a quarter of people who are eligible due to limited funding. The following three programs assist about 84% of the households receiving federal rental assistance:

- **Housing Choice Vouchers:** These are formerly known as Section 8 vouchers. This is the largest federal rental assistance program, helping more than 5 million people in about 2.3 million households. With a voucher, the household pays about 30% of its income for rent and utilities, and the voucher covers the rest. The program is administered locally by a housing agency. For the most part, vouchers are tenant based, allowing households to rent the home of their choice. Housing agencies can also tie a share of vouchers to a certain home (known as "project-basing") to make that specific unit affordable (Center on Budget and Policy Priorities, 2022b). See below for more details on the program.
- **Public Housing:** Publicly funded and operated housing available to people with low incomes. For the most part, local housing agencies manage the country's 958,000 public housing units, which provide an affordable home to nearly 2 million people (some agencies contract with private management companies or transfer ownership to a private entity; Center on Budget and Policy Priorities, 2021).
- **Project-Based Rental Assistance:** Participating private owners make multiyear agreements with HUD (or housing agencies in specific circumstances) to make their properties affordable. Owners manage the property and HUD provides them with a subsidy to cover the difference between the tenants' contributions in rent and the cost of maintaining and operating the home. As the name suggests, rental assistance through this program is tied to the specific unit (Center on Budget and Policy Priorities, 2022b).

Eligibility for these programs is similar, but some differences in federal statutes and regulations could impact DCT design implications. As the largest program, this paper will focus on housing vouchers.

HUD also operates several smaller programs that serve specific populations:

- **Section 202 Supportive Housing for the Elderly**, which provides resources to build, preserve, or acquire housing for older adults and subsidies to make the homes affordable.
- **Section 811 Supportive Housing for Persons with Disabilities**, which subsidizes rental housing for people with disabilities and their families.
- **Housing Opportunities for Persons with AIDS (HOPWA)**, which provides housing assistance and related supportive services for people with low incomes living with HIV/AIDS and their families.

Although not discussed in detail in this paper, other agencies operate some additional programs. The U.S. Department of Agriculture operates a rental assistance program in rural areas that helps more than 265,000 households (Center on Budget and Policy Priorities, 2022a). And in response to the COVID-19 pandemic, Congress provided \$46.5 billion to create the Emergency Rental Assistance Program (ERAP), which provides short-term rental assistance (no more than 18 months, inclusive of back rent) to help households impacted by the pandemic maintain stable housing. State and local agencies administer this program. Assistance may still be available in some places, but others have closed their applications (and may not receive additional funding for the program; U.S. Department of the Treasury, n.d.).

## HOUSING CHOICE VOUCHERS

As the largest federal rental assistance program, understanding how a DCT may interact with housing vouchers can help ensure participants remain eligible for the program. This section provides more details on how HCVs operate.

An individual or family can use a voucher to help pay the rent either for its current unit or a new unit. In either case, the landlord must agree to participate in the program. The housing agency must verify that the unit meets federal housing quality standards and that the rent is reasonable compared to market rents for similar units in the area. The household with a voucher generally must contribute the higher of 30% of its income, as determined under HUD's regulations, or a "minimum rent" of up to \$50 for rent and utilities. The voucher covers the rest of those costs, up to a limit (called a payment standard) set by the local housing agency that is based on HUD's Fair Market Rent estimates (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, n.d.). Housing agencies may establish a higher payment standard as a reasonable accommodation for a person with a disability. As discussed in greater detail later in this paper, the tenant's contribution toward the rent may change with their income. Households with vouchers can continue receiving assistance as long as they remain eligible and are able to complete the leasing process.

When a household receives a voucher, they have at least 60 days to find a home and begin the leasing process. Some housing agencies provide more than 60 days for this search time, and program participants can always request additional time. Once the voucher holder finds a housing option, the housing agency will need to approve it before a lease is signed.

Households with a voucher receive an allowance to help pay for utilities—such as electricity, gas, water, and trash collection—that a tenant is expected to pay and is not already included in the price of rent. Utility allowances do not cover internet costs. Housing agencies establish utility allowances based on average consumption data, local prices, and size of the household and home. Unlike rent contributions, they do not change based on a participant's income.

Vouchers can be used for additional purposes as well, with some limitations. Up to 30% of an agency's vouchers can be used for subsidies—called project-based vouchers—that are tied to a particular property rather than a particular family (Center on Budget and Policy Priorities, 2022c). Some housing agencies may also allow families to use vouchers to help with mortgage payments, enabling them to purchase homes, although this option is not widely used.

To receive a voucher, applicants must meet all the eligibility requirements outlined in Table 1.

### KEY REGULATIONS AND GUIDANCE

- [Housing Choice Voucher Program Guidebook](#)
- Voucher regulations: [24 CFR 982](#)
  - Eligibility and targeting: [24 CFR 982.201](#)
- Income definition: [24 CFR 5.609](#)
- [Eligibility of Independent Students for Assisted Housing](#)
- [Housing Choice Voucher Portability Guidance](#)



Table 1. Eligibility for Housing Choice Voucher Program

<b>ELIGIBILITY REQUIREMENTS</b>	
<b>Income</b>	Households must have incomes at or below 50% of the local median or, under some circumstances, up to 80% of the local median. Seventy-five percent of new households admitted each year by a local housing agency must have “extremely low incomes,” defined as incomes up to the poverty line or 30% of the local median, whichever is higher. HUD annually publishes household income limits based on location and family size.
<b>Immigration Status</b>	<p>Eligible immigration statuses:</p> <ul style="list-style-type: none"> <li>• U.S. citizen</li> <li>• Lawful Permanent Resident</li> <li>• Violence Against Women Act (VAWA) Self-Petitioner</li> <li>• Asylee and Refugee</li> <li>• Parolee</li> <li>• Person granted withholding of removal/deportation</li> <li>• Victim of trafficking</li> <li>• Individual residing in the U.S. under the Compacts of Free Association with the Marshall Islands, Micronesia, Palau, and Guam</li> <li>• Immigrant admitted for lawful temporary residence under the Immigration Reform and Control Act of 1986</li> </ul> <p>Ineligible immigration statuses: all other categories of noncitizens, such as student visa holders, employment visa holders, U-visa holders, recipients of Deferred Action for Childhood Arrivals (DACA), Temporary Protected Status (TPS) recipients, and people without a documented immigration status.</p>
<b>Previous Convictions</b>	<p>An individual is ineligible for a voucher if they have been:</p> <ul style="list-style-type: none"> <li>• subject to a lifetime sex offender registration;</li> <li>• evicted from federally assisted housing within the last 3 years for drug-related activity;</li> <li>• determined to be currently using a controlled substance;</li> <li>• determined to have a pattern of use of controlled substance or alcohol that interferes with health, safety, or right to peaceful enjoyment for other residents; or</li> <li>• convicted of the manufacture of methamphetamine on the premises of federally assisted housing.</li> </ul> <p>Housing agencies may establish additional restrictions based on criminal legal convictions (but not based solely on arrest records).</p>
<b>Restrictions for students</b>	<p>A student enrolled at a college or university not living with their parents has to meet certain criteria to be eligible for a voucher, including those who are verified:</p> <ol style="list-style-type: none"> <li>1. to meet the definition of “unaccompanied youth” as defined in section 725 of the McKinney-Vento Homeless Assistance Act, or</li> <li>2. as unaccompanied, at risk of homelessness, and self-supporting (U.S. Department of Housing and Urban Development, 2016).</li> </ol> <p>This means that college or university students experiencing homelessness should be eligible for a voucher.</p>

**Source: 24 CFR 982.2**

Vouchers can be used in shared housing living arrangements, although each housing agency establishes their own policies. (Agencies are required to make reasonable accommodations about shared living arrangements if needed for people with

disabilities.) Someone with a voucher can share a home with another voucher recipient or people without assistance (U.S. Department of Housing and Urban Development, 2015). Vouchers sharply reduce homelessness and other hardships, lift more than a million people above the poverty line, and give families more choices about where to live, including by expanding access to neighborhoods with resources that best fit their needs. These effects, in turn, are closely linked to educational, developmental, and health benefits that can improve adults' well-being and health and children's long-term outcomes, while reducing costs in other public programs (Fischer et al., 2019).

Despite the program's proven effectiveness, only a small share of people eligible receive assistance due to inadequate funding. About 1 in 4 households eligible for federal rental assistance receive it (Center on Budget and Policy Priorities, n.d.). Given the limited supply of vouchers, housing agencies establish wait lists that generally are hundreds or thousands of households long (Acosta & Guerrero, 2021). Those that do eventually receive a voucher have to wait an average of two and a half years on the list (Acosta & Gartland, 2021). People are often unable to even get on a wait list because many agencies have closed their lists to new applicants.

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## YOUNG ADULTS HAVE LIMITED ACCESS TO VOUCHERS



**Assistance such as DCTs that have less bureaucracy and more flexibility for youth to live with roommates or move with greater ease could be a helpful tool for ending youth homelessness.**

Overall, only 2% of households—about 46,500 households—that receive vouchers are headed by a young adult, including households that are a single young adult and those who are parenting or pregnant (U.S. Department of Housing and Urban Development, n.d.-c). This low number demonstrates that young adults often struggle to obtain a voucher or other rental assistance. As discussed earlier, this is in part because of the limited supply of assistance, but youth face additional barriers. Many are unaware that they may be eligible for a voucher or are reluctant to apply. They may also have trouble navigating the process and providing the necessary documentation to prove eligibility. Because youth often lack strong rental and credit histories or steady employment, they may struggle to find a landlord willing to rent to them, even when not using rental assistance. Reluctance to rent to someone with a voucher can be an additional barrier for youth in places without legal protections (i.e., bans on source of income discrimination; Coffey et al., 2021). Assistance such as DCTs that have less bureaucracy and more flexibility for youth to live with roommates or move with greater ease could be a helpful tool for ending youth homelessness.

Youth may also be unable to access federal rental assistance because of their immigration status or previous criminal legal convictions. A young adult with an immigration status that makes them ineligible for the program may not obtain a voucher if living alone. However, if they are part of a household in which other members are eligible, the agency can provide prorated assistance that covers those who are eligible. For example, a young adult without a documented immigration status living

with their child with U.S. citizenship would receive assistance prorated at 50% since half of the household is eligible (see rent calculation example under “Income and Rent Determinations” below).

## SOME VOUCHER RESOURCES RESERVED FOR FOSTER YOUTH

Within the Housing Choice Voucher program is a smaller, population-specific program called the Family Unification Program (FUP). Housing agencies work with public child welfare agencies to provide vouchers to either 1) families for whom lack of housing is a primary factor in placement of child(ren) in out-of-home care or the delay of child(ren) returning to the family from out-of-home care or 2) youth between ages 18 and 24 who have left foster care or will leave foster care within 90 days. For foster youth, the housing assistance is limited to 36 months (3 years; U.S. Department of Housing and Urban Development, n.d.-d). About 280 agencies (of more than 2,000) currently administer about 29,000 FUP vouchers (U.S. Department of Housing and Urban Development, n.d.-e). Housing agencies can also request authority to administer these vouchers for foster youth through the Foster Youth to Independence (FYI) initiative. FYI aims to better synchronize FUP vouchers with emancipation from foster care to prevent homelessness by allowing agencies to request assistance on a rolling basis. Through FYI, agencies can utilize existing resources for these vouchers, and Congress has also appropriated dedicated resources (U.S. Department of Housing and Urban Development, n.d.-f).

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## VOUCHERS AND INCOME

DCTs provided as lump sums or in temporary, sporadic payments could be excluded as income, but DCT program administrators may need to work directly with housing agency to staff to ensure they classify it as such.



Any financial resources, including DCT payments, may impact assistance through vouchers and many other forms of rental assistance (see Appendix A for forms of rental assistance) in two primary ways:

- **Eligibility:** As discussed above, participants must have income below a certain level to be eligible and maintain eligibility in the program. Eligibility is recertified annually.
- **Rent determination:** Because participants in the voucher program typically pay 30% of their monthly income toward rent, the amount they pay in rent may change with their income. (Utility allowances aren't based on income, so they will not change.)

## HUD'S DEFINITION OF INCOME

Households are required to report their different sources of income and other financial resources to the housing agency to determine eligibility and rent payments.<sup>4</sup> Some sources HUD considers income across rental assistance programs include:

- Wages and salaries
- Unemployment, disability, and similar compensation
- TANF (some exemptions)
- Regular contributions or gifts (monetary or otherwise) from anyone outside the family. This may include rent and utility payments paid on behalf of the family and other cash or non-cash contributions provided on a regular basis.
- Higher education financial assistance, such as grants and scholarships, that are provided in excess of tuition. This does not include money received through student loans.

Financial sources not counted as income include:

- Lump sums, such as inheritances
- Money received for reimbursements of expenses from participation in other public assistance programs (for example, a publicly funded jobs training program provides a monthly transportation stipend)
- Temporary, nonrecurring, or sporadic income. A common factor in determining if income fits in this category is whether a household expects to receive income from this source again in the coming year, even if payments are made on an irregular basis.

Unfortunately, this means that minimizing the impact of DCT payments on voucher assistance—even when payments are considered a gift or unearned income by the IRS—is not straightforward. DCTs provided as lump sums or in temporary, sporadic payments could be excluded as income, but DCT program administrators may need to work directly with housing agency staff to ensure they classify it as such.

## IMPACT OF INCOME ON ELIGIBILITY

In addition to calculating income when a household first applies for the program, housing agencies must conduct income reexaminations (also called recertifications) on at least an annual basis. Households report changes in income and household characteristics (such as number of people in the home). The housing agency will then adjust tenant payments accordingly. Housing agencies also set policies regarding when changes need to be reported outside of annual reexaminations and may not always process increases in income that occur mid-year (tenants have the right to request reexaminations for decreases in income; U.S. Department of Housing and Urban Development, 2020).

## INCOME AND RENT DETERMINATIONS

How much a household contributes to their housing costs, known as the total tenant payment, is determined based on the income calculations outlined above. Once a household has found a home to rent, the housing agency determines the subsidy amount by subtracting the tenant payment from the actual rental cost. Housing agencies will only cover rents up to a certain level, known as a payment standard, which is based on HUD's annual Fair Market Rents. Payment standard amounts depend on the number of bedrooms in the home. Table 2 shows two examples of rent calculations for different households.

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<sup>4</sup> 24 CFR 5.609.

Table 2. Examples of Rent Calculations for Two Household Types

<b>Youth Living Alone</b> (Wages and rent based on Minneapolis, MN)		<b>Undocumented Youth with Eligible Child</b> (Wages and rent based on Oakland, CA)	
Yearly income at \$9 per hour (full time)	\$18,720	Yearly income at \$15 per hour (part time)	\$15,600
Deduction of \$480 per child	- 0	Deduction of \$480 per child	- 480
Adjusted yearly income	\$18,720	Adjusted yearly income	\$15,120
	÷ 12 months		÷ 12 months
Monthly adjusted income	\$1,560	Monthly adjusted income	\$1,260
HUD's standard of affordability	× 30%	HUD's standard of affordability	× 30%
Tenant payment	\$468	Tenant payment	\$378
Local rent for studio	\$925	Local rent for 2-bedroom	\$2,200
Tenant payment	- \$468	Tenant payment	- \$378
Nonprorated subsidy	\$457	Nonprorated subsidy	\$1,822
Proration for eligible household members	× 100%	Proration for eligible household members	× 50%
Prorated subsidy	\$457	Prorated subsidy	\$911
<b>Total Tenant Payment (Rent – Prorated subsidy)</b>	<b>\$468</b>	<b>Total Tenant Payment (Rent – Prorated subsidy)</b>	<b>\$1,289</b>

## IMPLICATIONS FOR DIRECT CASH TRANSFER DESIGN



Because vouchers are not readily available, DCT payments could provide sufficient funding to cover housing costs. This approach would likely require significant funding but could help young adults obtain housing faster while enjoying the increased flexibility of the DCT compared to a voucher.

Deciding how a DCT program for young adults experiencing homelessness interacts with rental assistance will be a key question for program design. Housing Choice Vouchers and other publicly funded rental assistance are critical resources that young adults may want to use if they become available to them, particularly because they may be able to use the assistance even when the DCT program ends. Below are considerations and recommendations for program design.

### AMOUNT OF DCT PAYMENTS

Because vouchers are not readily available, DCT payments could provide sufficient funding to cover housing costs. This approach would likely require significant funding but could help young adults obtain housing faster while enjoying the increased flexibility of the DCT compared to a voucher. This flexibility includes being able to use the resources for nonhousing costs. Local median rents (which will be higher than HUD's Fair Market Rent calculations) could be useful for any program hoping to provide large enough DCT payments to cover rent and utilities.

If a DCT participant becomes eligible for a voucher, adjustments to the payment amount could be necessary. A program could increase the DCT to balance out increases in housing costs (if the program is not able to exempt the DCT as income). Alternatively, the program can reduce the DCT to reflect the additional assistance provided through the voucher. Any program that issues DCTs to participants who apply for a voucher should be prepared for this situation so that participating youth can fully understand their options.

HUD publishes local income limits for rental assistance if a program wants to ensure recipients do not become ineligible because of DCT payments and is unable to get the DCT excluded as income.

## **STRUCTURE AND TIMING**

Because HUD does not consider “temporary, nonrecurring, or sporadic” payments as income, a DCT program can time-limit the assistance and provide it in sporadic installments. The time-limited nature of the program would need to be clearly communicated to the housing agency. The payment could be provided as a lump sum prior to eligibility verification since a one-time lump sum would not count as income.

Not all agencies will adjust the tenant payment based on income increases between annual income reexaminations. In partnership with such agencies, the DCT program could time payments so that an increase in a household’s rent payment could be delayed until later in the year.

When trying to exclude a DCT as income, jurisdictions should work with the housing agency to ensure they understand the design of the program. For example, as part of the Compton Pledge program in Compton, CA, the Compton Housing Authority agreed to exempt cash transfers as “temporary, non-recurring, or sporadic income” because the program only lasted 2 years. In Stockton, CA, the Stockton Economic Empowerment Demonstration (SEED) partnered with the Housing Authority of the County of San Joaquin to create a “Hold Harmless Fund” that provided periodic, lump sum payments to SEED participants to compensate for the increases in rent resulting from the SEED payments. So while the housing agency was not able to exempt the SEED payment, they were able to structure the Hold Harmless Fund in a way that it would not count as income.

DCT programs can also work with housing agencies to adjust local policies or secure waivers. The Abundant Birth Project in San Francisco, CA worked with the Housing Authority of the City and County of San Francisco to obtain a limited waiver from HUD. The housing agency requested that payments made through the Abundant Birth Project be exempt as income under 24 CFR 5.609(b)(7): “Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.” HUD granted the request, stating the waiver was “granted specifically to allow SFHA to exclude from income the research-related monthly supplement provided to Housing Choice Voucher families participating in the Abundant Birth Project to further the goals of the research” (San Francisco Office of Financial Empowerment, 2021). The emphasis on research in HUD’s response suggests that having a research or evaluation component of a DCT program could help secure waivers at the federal level. HUD also notes that once the agency is done implementing the Housing Opportunity Through Modernization Act of 2016 (HOTMA), housing agencies will be able to adopt permissive deductions without HUD approval outside of those currently permitted. Instead, agencies will have to add such income deductions to their Administrative Plan for the Housing Choice Voucher program (San Francisco Office of Financial Empowerment, 2021). The timeline for finalizing HOTMA regulations is unclear but could be as soon as 2022.

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# RECOMMENDATIONS

In addition to the more technical suggestions above, the following recommendations can be helpful for decision makers at the program design level:

## **1. ENGAGE WITH YOUTH**

As the target audience for these DCT programs, youth and young adults with lived experience of homelessness need to have a seat at the table. What they hope to get out of a DCT, what sort of living arrangements they hope to find, what resources they hope to access, and how they want to interact with the program will help direct the design of the program and ensure that it works well for them.

## **2. DESIGN PROGRAMS TO COVER HOUSING COSTS**

Ending homelessness and housing insecurity will require a variety of tools to meet the needs of different groups. Vouchers and other rental assistance resources are a critical component of the solution, but DCTs may also play an important role. Given the current funding limitations of all federal rental assistance programs, a DCT program with payments large enough to help cover local rental prices could be a significant resource for people experiencing homelessness, especially youth and young adults. A DCT would neither require some of the bureaucratic processes involved in the voucher program nor carry the stigma of a voucher, which some landlords refuse to accept. A DCT would also be more flexible and make it easier for young adults to share a home or move more frequently. DCTs could also provide larger transfers to help with security deposits, moving, furniture, or a young adult's other needs. Research should be part of any such program to help evaluate DCTs as a housing assistance option and identify ways rental assistance programs more broadly can better serve young adults.

## **3. ESTABLISH PROTOCOLS WITH HOUSING AGENCIES TO ALLOW PARTICIPANTS TO ACCEPT VOUCHERS**

Currently, many DCT programs are temporary demonstrations or pilots. While only a few years of assistance through a DCT program may be sufficient for some to find and maintain stable housing, others may need more time. However, a household can generally use a voucher as long as they remain eligible. Programs should proactively identify protocols for if/when a participant gets a voucher or other rental assistance. This will help ensure participants understand their options and can help anyone who receives a voucher make the best choice for them. Partnering with housing agencies and Continuums of Care during the design phase of the DCT program is key. This will help determine if the housing agency can modify its policies, especially after HOTMA regulations are finalized, or if the program should modify the DCT design (either overall or specifically for those who receive vouchers) to maximize the benefit of both programs for participants.

*The following recommendations at the federal level will be helpful in the path toward a more equitable housing system:*

## **4. PUSH FOR ADDITIONAL HOUSING RESOURCES AND EASIER ACCESS**

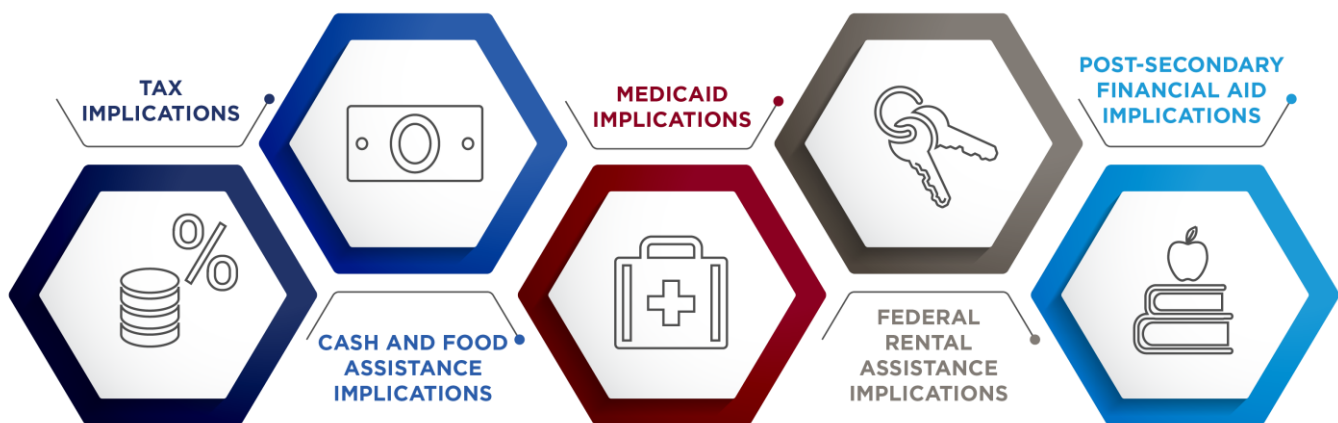
Housing is foundational, but funding for programs that help people secure and maintain it falls far short of the need. In part as a response to the COVID-19 pandemic, Congress has provided additional housing resources in recent years. However, more resources are needed to create a true housing safety net. State and local governments can create housing assistance programs of their own, ideally designed to help those families and individuals who face barriers to federal rental assistance, such as immigrants, people with criminal legal convictions, and young adults. At the federal level, Congress should continue to remove such statutory barriers, pass national protections from source of income

discrimination, and build on recent investments for vouchers and services until everyone has access to housing. HUD and housing agencies can also make vouchers easier to use by providing housing search and navigation services, incentivizing landlords to encourage their participation, helping with security and utility deposits, and offering some flexibility in the application and documentation process.

**5. PURSUE STATUTORY AND REGULATORY CHANGES TO MAKE DCTS EASIER TO USE IN CONJUNCTION WITH RENTAL ASSISTANCE PROGRAMS.**

Many of the barriers to effectively and easily using DCTs alongside HUD’s rental assistance programs exist because DCTs were not contemplated as an intervention when these programs were authorized, designed, and implemented. HUD and lawmakers should include DCTs as a factor when considering modernization of the programs discussed in this paper. This will help ensure that cash assistance, and DCTs in particular, are a viable option for young adults while not disqualifying them from receiving rental assistance.

The toolkit is comprised of multiple well-researched, vetted, and user-friendly resources that cross the spectrum of taxes and public benefits to provide clear policy analyses and recommendations for state and local jurisdictions to implement and evaluate DCT projects for youth and young adults that maximize their positive outcomes and minimize risks to participants.





# APPENDIX A.

## TYPES OF RENTAL ASSISTANCE

	Rental Assistance through Homeless Assistance Programs			Federal Rental Assistance programs		
	Homeless Prevention (ESG)	Rapid Re-housing (ESG, CoC, or YHDP)	Permanent Supportive Housing (CoC or YHDP)	Housing Choice Vouchers	Public Housing	Project-Based Rental Assistance
<b>Income eligibility</b>	Meets definition of "at-risk of homelessness" and has income less than 30% of local median income	Meets the definition of homeless but no income eligibility requirement	Meets the definition of homeless, has a disability (or is in household in which someone else has a disability), but no income eligibility requirement	Income at or below 50% of the local median income or, under some circumstances, up to 80% of local median	Income less than 80% of the local median income	Income less than 80% of the local median income
<b>Rent determination</b>	Varies based on type of assistance	Varies based on household	Households pay 30% of their income towards rent	Households pay 30% of their income toward rent (or a minimum rent, whichever is higher)		

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# Direct Cash Transfers and Postsecondary Financial Aid

The Implications of Direct Cash Transfers on Postsecondary Financial Aid and Pell Grants

Daniel T. Barkowitz<sup>1</sup> | November 2022



Young adulthood is a highly formative period for socio-emotional development (Roberts and Davis, 2016; Casey et al., 2019) and attaining critical skills, education, and experiences that foster positive, healthy, and productive transitions to adulthood. For young people experiencing homelessness, though, this significant developmental stage is spent focusing on surviving and coping through associated trauma and adversity. Research shows significantly lower levels of education and training enrollment, attainment, and achievement among youth and young adults experiencing homelessness compared to stably housed peers (Chassman et al., 2020). Qualitative evidence underscores how housing instability is one of the main barriers to young people's ability to pursue and progress in education and training (Kull et al., 2019).

Unconditional direct cash transfers are a promising solution to support young people 18 to 24 years old experiencing or at risk for homelessness in exiting homelessness and making investments in themselves. They enable a nonpaternalistic pathway to stability, giving many young people the capacity to begin making direct investments in their education and skills. Recognizing each young person's pathway will look different; young people choosing to pursue a postsecondary degree or certificate are faced with the rising costs of college and career and technical education. Federal, state, and institutional financial aid will be an important resource for the success of students who have experienced homelessness. As this paper highlights, unconditional direct cash transfers in the form of a gift delivered during or after 2022 will not count against federal financial aid. The change in the FAFSA ultimately minimizes the risk of young people losing access to an important resource to bolster their success in pursuing a post-secondary degree or certificate.

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**State and institutional financial aid programs may consider direct cash transfers to be nontaxable income.**

## HIGHLIGHTS:

- Beginning with the 2024–25 academic year, unconditional direct cash transfers (DCTs) will no longer be reportable income on the Free Application for Federal Student Aid (FAFSA)<sup>2</sup> and therefore will not be considered when reviewing Federal financial aid applications. DCTs received during the 2022 tax year and after will be able to take advantage of this new exclusion.
- State and institutional financial aid programs may consider DCT income to be nontaxable income.
- The taxability of DCTs is a major determinant of their inclusion or exclusion from financial aid analysis. If DCT income is considered taxable income for a recipient, then there could be significant impact on financial aid.
- DCT programs that require postsecondary enrollment are considered to be a financial aid award. They reduce other access to financial aid on a dollar-for-dollar basis.

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## ABSTRACT

Direct cash transfer (DCT) programs offer tremendous promise to change the lived experience of homeless unsupported youth. The youth recipients of these cash gift may encounter unexpected consequences when and if they apply for Federal, State, or Institutional financial aid while attending postsecondary institutions (colleges and universities). This paper examines the following issues germane to this population: the determination of dependency status; the difference in how the needs analysis system treats as income DCTs received after 2021 and those received in 2021 and earlier; the minimal impact on Pell Grant eligibility for students receiving DCTs in 2022 and after; and the possible impact on state, institutional, and private grants and scholarships. The paper will attempt to analyze these questions. It will offer design considerations for policymakers to lessen any potential negative impacts to financial aid receipt on youth recipients.

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<sup>2</sup> As long as so determined by the IRS to be nontaxable. Current guidance and precedent (see PAPER) would indicate that Direct Cash Transfers distributed out of detached and disinterested generosity, intended to serve a charitable purpose and not as compensation for services rendered by the recipient, should not constitute taxable income.

## Acronyms and Abbreviations

AGI	Adjusted Gross Income
CRRSA	Coronavirus Response and Relief Supplemental Appropriations
DCT	Direct Cash Transfer
EFC	Expected Family Contribution
FAA	Financial Aid Administrator
FAFSA	Free Application for Federal Student Aid
FM	Federal Methodology
FICA	Federal Insurance Contributions Act
IPA	Income Protection Allowance
SAI	Student Aid Index
SEOG	Federal Supplemental Educational Opportunity Grant
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TAY	Transition Age Youth
U.S. HUD	United States Department of Housing and Urban Development
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

## BACKGROUND

Federal financial aid programs (including grants, scholarships, and work-study) were established by Title IV of the Higher Education Act, as amended (1965). These programs are governed by regulations enacted by the Department of Education's Federal Student Aid division (FSA) and largely contained in the annual Federal Student Aid Handbook.<sup>3</sup> In order to apply for federal (and most state and institutional) financial aid, students must complete the Free Application for Federal Student Aid (FAFSA) each year they plan to attend an institution of higher education.<sup>4</sup>

The FAFSA application period begins on October 1 of the year preceding the enrollment academic year (for example, October 1, 2023 for the 2024–25 academic year). When completing the FAFSA, a student is asked to provide income information for the last completed tax year prior to the opening application date (in the case of the 2024–25 academic year, 2022 tax information would be provided); this income is often referred to as “prior-prior year” income since it is 2 years removed from the start of the academic year (see Figure 1).<sup>5</sup>

<sup>3</sup> The Federal Student Aid Handbook is released annually. The most recent version can be found at <https://fsapartners.ed.gov/knowledge-center/fsa-handbook>

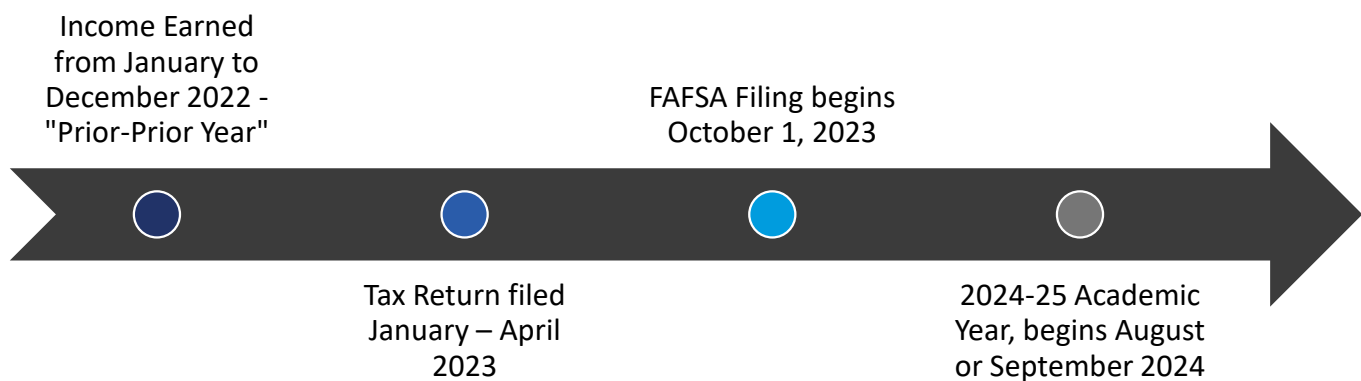
<sup>4</sup> The pdf version of the 2022-23 FAFSA may be found at <https://studentaid.gov/sites/default/files/2022-23-fafsa.pdf>. Most student applicants will complete the electronic version of the form (or the mobile version). The electronic version can be found at <https://studentaid.gov/h/apply-for-aid/fafsa> and the mobile version can be accessed using the MyStudentAid mobile app (<https://studentaid.gov/mystudentaid-mobile-app>).

<sup>5</sup> Income as defined by the FAFSA application includes both taxable and specific types of non-taxable income. See the *2022-23 Federal Student Aid Handbook, Application and Verification Guide*, Chapter 2 Filling Out the FAFSA, Steps Two and Four: Income and Assets (<https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide/ch2-filling-out-fafsa>).

# OVERVIEW OF POST-SECONDARY FINANCIAL AID AND CASH TRANSFERS

Household, dependency, and asset information is provided as of the date of the filing of the FAFSA. When a student has completed their FAFSA, FSA calculates the family's provided information and determines an Expected Family Contribution (EFC).<sup>6</sup> This EFC is currently used to determine the amount of the Federal Pell Grant (starting in 2024–25, the EFC will be replaced by a Student Aid Index [SAI]). The EFC is also used in determining financial need for other need-based grants, scholarships, loans, and work programs. Federal Pell Grants are dependent on enrollment level. Students who enroll full time receive the full amount of the Pell Grant, those who enroll three-quarters time, half time, or less than half time receive three-fourths, half, or one-quarter of the Pell award per semester.<sup>7</sup> Starting in academic year 2024–25, Pell Grant awards will be determined by prorating the semester amount by the number of credits a student is attempting against full-time status (12 credits). The number of credits will be rounded to the nearest whole number (for example, a student attempting 10 credits would be eligible for 10/12, or 83%, of a full-time award; Congressional Research Service, 2022).

**Figure 1. Academic Year, FAFSA Filing, and Prior-Prior Year**



Recent program design has focused on direct cash transfer programs for transition-age youth (TAY) and youth experiencing homelessness. Those programs currently operating or in the pilot phase (as well as newly created programs) will have their first disbursements to individuals during or after the 2022 tax year. The remainder of this paper will focus on the impacts of the newly changed financial aid methodology, which begins in the 2024–25 academic year. Income received by students in 2022 will be used as the basis for the financial aid analysis, and therefore any income received from DCTs will be ignored for determination of a student's Pell Grant beginning in 2024-25 and forward.

<sup>6</sup> For review of the process by which students apply using the FAFSA, the calculation of the EFC, and special cases, read the Application and Verification Guide, which is part of the Federal Student Aid Handbook (<https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide>).

<sup>7</sup> See *2021–2022 Federal Student Aid Handbook, Volume 3 Calculating Awards and Packaging*, Chapter 3 Calculating Pell and Iraq and Afghanistan Service Grant Awards (<https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2021-2022/vol3/ch3-calculating-pell-and-iraq-afghanistan-service-grant-awards>).

## DEPENDENCY STATUS

In assessing eligibility for student financial aid, the first step is to determine whether a student is dependent or independent (their dependency status). The dependency status, which can either be dependent or independent, is not related to the tax status of the individual (whether they can claim themselves on a tax return) and is instead based on a set of regulated criteria. These criteria determine whether a student may apply for financial aid on their own without parental information (as independent) or must include parental income and assets to determine eligibility (as a dependent student). The ten questions asked on the FAFSA can be found in Figure 2. Note that if parents refuse to complete a FAFSA or income self-sufficiency, students cannot still demonstrate independence.

**Figure 2. Questions Used on the FAFSA to Determine Dependency Status<sup>a</sup>**

**All applicants for federal student aid are considered either “independent” or “dependent.”**

<b>INDEPENDENT STUDENT</b>	<b>DEPENDENT STUDENT*</b>
If you answer <b>YES</b> to ANY of these questions, then you may be an independent student. You may not be required to provide parental information on your <i>Free Application for Federal Student Aid (FAFSA)</i> form.	If you answer <b>NO</b> to ALL of these questions, then you may be considered a dependent student and may be required to provide your parents' financial information when completing the FAFSA form.

- 1 Will you be 24 or older by Jan. 1 of the school year for which you are applying for financial aid? For example, if you plan to start school in August 2023 for the 2023–24 school year, will you be 24 by Jan. 1, 2023 (i.e., were you born before Jan. 1, 2000)?
- 2 Are you married or separated but not divorced?
- 3 Will you be working toward a master’s or doctorate degree (such as M.A., MBA, M.D., J.D., Ph.D., Ed.D., etc.)?
- 4 Do you have children who receive more than half of their support from you?
- 5 Do you have dependents (other than children or a spouse) who live with you and receive more than half of their support from you?
- 6 Are you currently serving on active duty in the U.S. armed forces for purposes other than training?
- 7 Are you a veteran of the U.S. armed forces?
- 8 At any time since you turned age 13, were both of your parents deceased, were you in foster care, or were you a ward or dependent of the court?
- 9 Are you an emancipated minor or are you in a legal guardianship as determined by a court?
- 10 Are you an unaccompanied youth who is homeless or self-supporting and at risk of being homeless?

*\*If you don't answer “yes” to any of the questions above, you're still considered a dependent student for purposes of applying for federal student aid even if you don't live with your parents, are not claimed by your parents on their tax forms, or are paying for your own bills and educational expenses.*

<sup>a</sup> Image from the Dependency Status web page of the Federal Student Aid website: <https://studentaid.gov/apply-for-aid/fafsa/filling-out/dependency>





**The FAFSA Simplification Act of 2021 removed several questions about nontaxable income from the FAFSA, including the question regarding cash support. Therefore, DCT gift income will no longer be reportable on the FAFSA starting with the 2024-25 academic year.**

It is anticipated that most of the young adults receiving DCTs through programs for youth experiencing homelessness or transition-aged youth will be younger than 24 years old as of January 1 of the academic year in which they receive aid. Therefore, they will not automatically be independent due to age. Many of these young people, however, will qualify under the allowance for unaccompanied youth who are homeless or are self-supporting and at risk of homelessness. This determination can be made by: 1) a school district homeless liaison; 2) a director (or designee) of an emergency shelter or transitional housing program funded by U.S. HUD; 3) a director (or designee) of a runaway or homeless youth basic center or transitional living program; or 4) a financial aid administrator (FAA; see Federal Student Aid, 2022, Chapter 2). If an FAA determines a student to be considered homeless or at risk of homelessness, this determination must be documented. Acceptable documentation could include letters from the student or a third party, or notes from a conversation with the student. The determination must be made on a case-by-case basis, must be made each year that a student is in school, and must use the definition of homelessness as lacking “fixed, regular, and adequate housing” (Federal Student Aid, 2022, Chapter 5). Students who are 22 or 23 years old, though not identified as “youth” by the McKinney-Vento Act, may also answer “yes” to the FAFSA question related to homelessness if they too lack fixed, regular, and adequate housing (Federal Student Aid, 2022, Chapter 2).

Other conditions which may apply to youth receiving DCTs include having been in foster care, having a legal guardian, or providing more than half of the support for a dependent (either a child or another dependent). If an eligible young adult is pregnant and expecting the child during the academic year, that child may be claimed as grounds for documenting independence (as long as the young adult plans to provide more than 50% of the child’s support; Federal Student Aid, 2022, Chapter 2).

The determination of “more than half of the support” is left up to the FAFSA applicant; however, guidelines are provided. If more than half of the financial support is coming from a student’s parent (directly or indirectly) then the student must answer “no” to the question regarding the support of a child or dependent. If financial support is received from any source other than the student’s parents (for example, SNAP, Medicare, or WIC), the student may count this as part of their own support of their child. This means a student could provide more than half of the support to a child purely through public benefits (or DCT grants) and still answer “yes” to the question regarding the support of a child or other dependent (Federal Student Aid, 2022, Chapter 2).

In some cases, it is possible that a DCT recipient will not qualify under any of the above requirements but may still be considered independent from their parents. Especially in cases of abuse or neglect, an applicant may request a dependency override from an FAA and the FAA may declare an otherwise dependent applicant to be independent. This judgment must be made on a case-by-case basis and must be determined annually. None of the following conditions on their own rise to the level of unusual circumstances (although they may be indications of other underlying issues): the parents refuse to contribute to the student’s education; parents will not provide information for the FAFSA or for verification of income, the

parents do not claim the student as a dependent for income tax purposes, or the student demonstrates total self-sufficiency. Unusual circumstances may include (but are not limited to) abandonment by parents, abuse or neglect, or the inability to locate parents. Third-party documentation (potentially from a runaway and homeless youth drop-in center or a case manager) is likely to be required by the FAA to support the determination in almost all cases. One school can use another school's determination within an academic year, but the status must be confirmed, and a dependency override must be performed each year (Federal Student Aid, 2022, Chapter 5). Starting in academic year 2024–25, this determination will only need to be made one time during a student's enrollment at each institution; the student will no longer be required to document their independence annually (Congressional Research Service, 2022, p. 20).

## INCOME REPORTING AND NEEDS ANALYSIS

The process of determining a student's eligibility for financial aid begins with the determination of a family's ability to pay for college costs. The formula used to make this determination is called the Federal Methodology (FM), the process is referred to as "needs analysis," and the outcome of the formula is referred to as the EFC (Expected Family Contribution). (The formula can be found in the Student Aid Handbook, Application and Verification Guide, Chapter 3.) The EFC is used as an index to determine the amount of the Federal Pell Grant and is also considered a source of support when putting together a combination of financial aid funds for a student. Other need-based funds (federal, institutional, state, or private) are impacted by an increase in the EFC, as is the Federal Pell Grant. Therefore, any increase in the student's EFC could mean a corresponding potential decrease in other need-based financial aid fund offers. Beginning in 2024–25, the EFC will be replaced by the Student Aid Index (SAI). While there are some important changes in the determination method for the SAI, in large part the purpose and use of the SAI remains the same as the EFC (Congressional Research Service, 2022).

Income required to be reported on the FAFSA includes both taxable and nontaxable sources. Some types of nontaxable income are not reported or included on the FAFSA, such as untaxed social security benefits, welfare benefits (including Medicaid, SNAP, and TANF), and earned income or child tax credits. Gifts, however, including unconditional DCTs<sup>8</sup> would be reported as untaxed income on the current version of the FAFSA (this only applies through the academic year of 2023–24). One question on the FAFSA (only asked of students, not of parents) specifically relates to this type of income: "The student reports any cash support he or she received. Cash support includes money, gifts, housing, food, clothing, car payments or expenses, medical and dental care, college costs, and money paid to someone else or paid for on his or her behalf." However, as stated above, income is always reported on a prior-year basis. As such, for a student enrolling in 2023–24, the only DCT income which would be reportable on the FAFSA would be any income received in the tax year 2021 (January 1, 2021 to December 31, 2021; Federal Student Aid, 2022, Chapter 3).

The FAFSA Simplification Act of 2021 removed several questions about nontaxable income from the FAFSA, including the question regarding cash support.<sup>9</sup> Therefore, DCT income will no longer be reportable on the FAFSA starting with the

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<sup>8</sup> As of the publication date of this paper, unconditional Direct Cash Transfers were considered a gift and therefore not subject to Federal Income Taxes. See the paper on tax treatment of DCTs in the toolkit.

<sup>9</sup> "Due to the multifaceted nature of many of the factors and the incremental nature of some of the changes, it is difficult to calculate exactly how many factors were eliminated. For example, the FSA amendments eliminates HEA Section 480(b), which includes a provision for 'any other untaxed income and benefits' that provides four examples of income that could be considered under this provision and then explicitly excludes six other forms of untaxed income. Another example of complexity is that the HEA prior to the enactment of the FSA amendments included tax-deferred contributions to retirement accounts as untaxed income and the FSA amendments retain some, but not all, of these contributions as untaxed income." Congressional Research Service, The FAFSA Simplification Act, <https://crsreports.congress.gov/product/pdf/R/R46909>, pages 5-6 and footnote 23.

2024-25 academic year. As students will report 2022 income on the 2024–25 FAFSA, any DCT payments made in the 2022 tax year and later will not be included as income for needs analysis.<sup>10</sup>

## DETERMINATION OF PELL GRANT AWARD

Under the FAFSA Simplification Act, the Pell Grant amount a student will receive will be determined based on a combination of factors: the family size, dependency status, the family total income, the current federal poverty guidelines, and the SAI. Under the new rules, a student will first be considered for a maximum or minimum Pell Grant guarantee. This determination will be made using the Adjusted Gross Income (AGI) of the student (if independent) or parent (if still a dependent). If an independent student or dependent parent is not required to file a federal tax return, the student will automatically receive the maximum Pell Grant award (for 2022–23, the maximum is \$6,895 for 9-month full-time enrollment). For those who file a federal tax return, the maximum and minimum guarantees will compare the income reported against a percentage of the annual federal poverty guidelines (see Figure 3; Congressional Research Service, 2022, pp. 13–14).

As the federal poverty guidelines are determined by the size of the household, the income used in the calculation will be based on household size.<sup>11</sup> For example, an independent single student without dependents would receive the maximum Pell Grant if their taxable income (AGI) is \$22,540 or lower.<sup>12</sup> The same student would be guaranteed a minimum Pell award as long as their AGI is equal to or less than \$35,420.<sup>13</sup> As DCT income is not included in the AGI since it is nontaxable, this income has no impact on this maximum award calculation.

Students who qualify for a guaranteed minimum Pell award may receive a higher Pell Grant award if their calculated SAI when subtracted from the maximum Pell Grant award for the year provides a higher value. Other students whose income as compared to the poverty guidelines do not qualify for the minimum Pell Grant may also receive a Pell award if the total maximum Pell Grant minus their SAI is a number greater than zero and their SAI is equal to or less than 90% of the maximum Pell Grant level (Congressional Research Service, 2022, p. 14).

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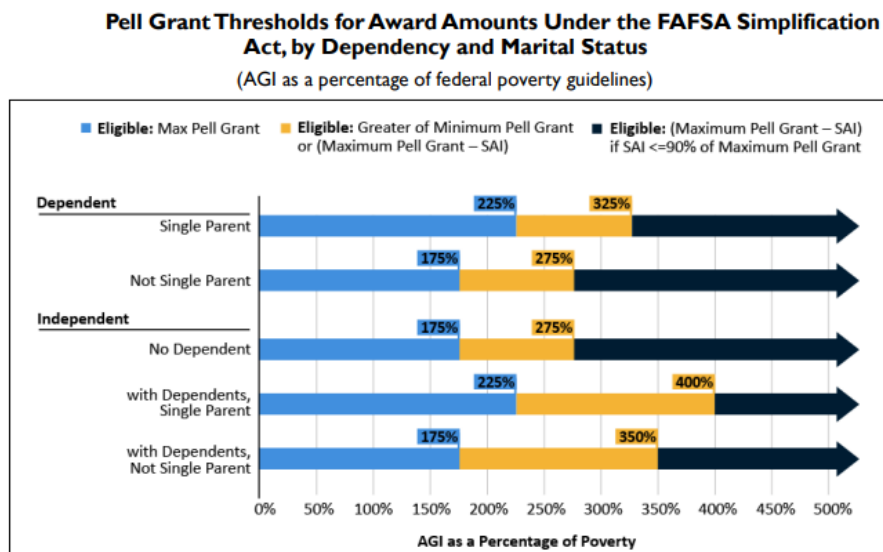
<sup>10</sup> "Among the forms of untaxed income that will no longer be considered are 'cash support or any money paid on the student's behalf.' Prior to the FSA taking effect, this form of untaxed income (which excludes support from dependent students' parents) meant that the EFC considered support from individuals who are not required to report information on the FAFSA, such as contributions from grandparents." Congressional Research Service, *The FAFSA Simplification Act*, <https://crsreports.congress.gov/product/pdf/R/R46909>, page 6.

<sup>11</sup> See the 2021 Federal Poverty Guidelines at <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines/prior-hhs-poverty-guidelines-federal-register-references/2021-poverty-guidelines#guidelines>.

<sup>12</sup> Using the 2021 poverty guidelines, the maximum is determined as 175% of \$12,880—the poverty guideline for a single-member household.

<sup>13</sup> This is determined as 275% of \$12,880. The base number is, again, taken from the 2021 poverty guidelines for this example.

Figure 3. Pell Grant Thresholds<sup>a</sup>



**Source:** HEA 401 § (b), as amended by the FSA.

**Notes:** AGI is adjusted gross income. SAI is Student Aid Index. Pell Grant award cannot exceed cost of attendance (COA). Adjusted gross income thresholds, as a percentage of poverty, are established by the FSA amendments. Upper thresholds are inclusive of the lower category. For example, a dependent student who has a single parent who has an AGI that is 225% of poverty may qualify for the maximum Pell Grant award.

<sup>a</sup> Congressional Research Service, 2022, p. 15

For students with dependents of their own (whether single parents or coupled), the income thresholds are higher (see Figure 3). Again, it is important to note that these thresholds are based on reported taxable income (and therefore DCTs are not considered in this analysis).

## DCT IMPACT ON STATE, OTHER FEDERAL AND INSTITUTIONAL FINANCIAL AID



The best advice for students and providers is to contact each financial aid funder (institution, state, private organizations) to determine how they will analyze income from the DCT

While the Federal Pell Grant provides considerable financial aid to students, financial aid is also available through many other programs. These programs can generally be divided into two categories: need-based and merit-based. Programs which are need-based usually rely upon the EFC/SAI to determine the amount of their award or whether a student will qualify for an award. Merit-based programs usually rely upon academic or other credentials to determine recipients.

Federal SEOG (Supplemental Educational Opportunity Grants) deserve special mention. They are highly reliant upon the EFC/SAI determined by the needs analysis formula. SEOG is a campus-based fund, meaning that FSA offers a fixed amount of funding to each institution who requests to participate in the program, and Financial Aid offices determine who is awarded the funds from the

program. Priority is determined by the institution, with some significant restrictions. FSA requires students with the lowest contribution be given absolute priority in receiving these funds. SEOG awards vary by student and by institution but can be between \$100 and \$4,000 per academic year.<sup>14</sup>

<sup>14</sup> See Congressional Research Service, *The FAFSA Simplification Act*, <https://crsreports.congress.gov/product/pdf/R/R46909>, pages 14.

The rules for each financial aid program offered by states, institutions, or private funders are determined by the funding provider. Each state and institution has their own method for determining financial aid eligibility. Many (but not all) states follow FAFSA eligibility rules. This will mitigate impacts for many DCT recipients.

Institutions and private funders who rely upon FAFSA data will not include DCT income as part of their contribution of the SAI; however, other providers may inquire about other nontaxable income (including DCTs) to be reported and may consider this income in their analysis of student eligibility. The best advice for students and providers is to contact each financial aid funder (institution, state, private organizations) to determine how they will analyze income from the DCT. If needed, the student can explain the special circumstances of the receipt of the DCT and request individual consideration through a Professional Judgment.

## **PROFESSIONAL JUDGMENT AND OTHER INCOME CONSIDERATIONS**

Many institutional and private financial aid providers (but not all) will accept Professional Judgement determinations by FAAs. As income reported on the FAFSA is always based on prior-prior year, the timing of the receipt of the DCT and the attendance in postsecondary education may have important impacts on the determination of nonfederal financial aid. Depending on when the recipient attends school, the DCT benefit (if being currently received) may not need to be disclosed to the funder. If a student, for example, both receives the DCT for the first time in 2022 and attends college or university in the 2022–23 academic year, there would be no immediate impact on financial aid. The income received in 2022 would only become relevant in 2024–25, the student's third year of attendance.

If there is a question about whether income from the DCT should be considered in the application for financial aid, the potential impact of DCT income may be mitigated by a Professional Judgment performed by a Financial Aid Administrator (FAA). FAAs are given wide latitude to make individual adjustments to the data used in needs analyses if there are unusual circumstances. One example of unusual circumstances would be a one-time income source. In the case of DCT income, which is limited 1 or 2 years, an applicant may request a professional judgement from an FAA to ignore or set aside the income. This is strictly determined by the individual FAA and must be evaluated on a case-by-case basis. As part of the professional judgment analysis, an FAA may use any continuous 12-month period to analyze income. Typically, income analysis is based on a tax year, but a different period may be beneficial for a Professional Judgment review if DCT benefits are not on a calendar year cycle (Federal Student Aid, 2021).

To assist DCT recipients in requesting a Professional Judgment adjustment from an FAA, DCT providers may want to provide recipients with a form or letter stating the transient nature of the benefits and explaining the purpose of the funds. This letter could be provided to the FAA as part of a student request for reanalysis.

## **IMPACTS OF DCT PROGRAMS ON FINANCIAL AID**

Direct cash transfer programs should have minimal impact on financial aid awards, as long as they are not conditioned on enrollment in a program of higher education. If the program does require enrollment in higher education, the DCT program would be considered a source of financial aid and would result in a dollar-for-dollar reduction of availability for other financial aid.

As explained earlier, DCTs received in 2022 and later do not have to be reported on the FAFSA as taxable income. As merit-based scholarships do not generally consider income or ability to pay, there should be no impact on these awards if a student is a DCT recipient. Federal need-based programs, including the Pell Grant, will also not be impacted by the receipt of nontaxable DCT income. There remains an open question as to whether other outside funders (state, institution,

and private) will consider DCTs as a source of income and whether a recipient's eligibility for those types of financial aid will be reduced.

## SCHOLARSHIP TAXABILITY

While this paper will not comment on the taxability of DCT programs (other than to say that there is a built-in assumption that they are a nontaxable income source), the question of scholarship taxability is important to review. If DCTs are determined to be taxable, they would then be included as income in the analysis of the SAI and could have an impact on Pell Grants and other awards.

Since DCTs are not Estimated Financial Aid, there should be no implications on 1099-T reporting. As a reminder, however, scholarships in excess of tuition and mandatory books are taxable (Internal Revenue Service, n.d.). Scholarship income (above "qualified expenses") are reported on the tax filer's 1040 form. However, they are ignored in the financial aid analysis. Wages from work-study jobs (or need-based employment) are also ignored during the needs analysis although taxes may be due on the associated income.<sup>15</sup>

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## PROGRAM DESIGN CONSIDERATIONS & FURTHER RECOMMENDATIONS



**Private, state, and institutional providers of financial aid may consider the DCT to be income, however, and therefore may reduce the amount of their financial aid to a student receiving these funds.**

During program development, DCT providers may want to consider the following issues to minimize any unintended negative consequences for students attending postsecondary education:

- If the DCT program requires enrollment in college, then it is Estimated Financial Aid and results in a dollar-for-dollar reduction in eligibility for other financial aid.
  - Whether the program provides cash directly to a student or pays expenses on behalf of the student, the amount of money provided will not be considered income for the FAFSA and therefore will not have any impact on federal financial aid (including Pell Grants). This is true for DCTs with payments beginning in 2022 or later.
- Starting with income received in 2022 (and with the analysis performed in 2024–25), Federal financial aid providers will not include the DCT in their analysis. Private, state, and institutional providers of financial aid may consider the

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<sup>15</sup> See "Taxable income offsets" in *2022-2023 Federal Student Aid Handbook*, Application and Verification Guide, Chapter 2 Filling Out the FAFSA, Steps Two and Four: Income and Assets (<https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide/ch2-filling-out-fafsa>).

DCT to be income, however, and therefore may reduce the amount of their financial aid to a student receiving these funds. DCT programs may want to proactively reach out to local partners close to the start of the 2024–25 academic year. Then programs could advocate for discounting the direct cash transfer as income and learn what these funding agencies may be considering as treatment of these programs.

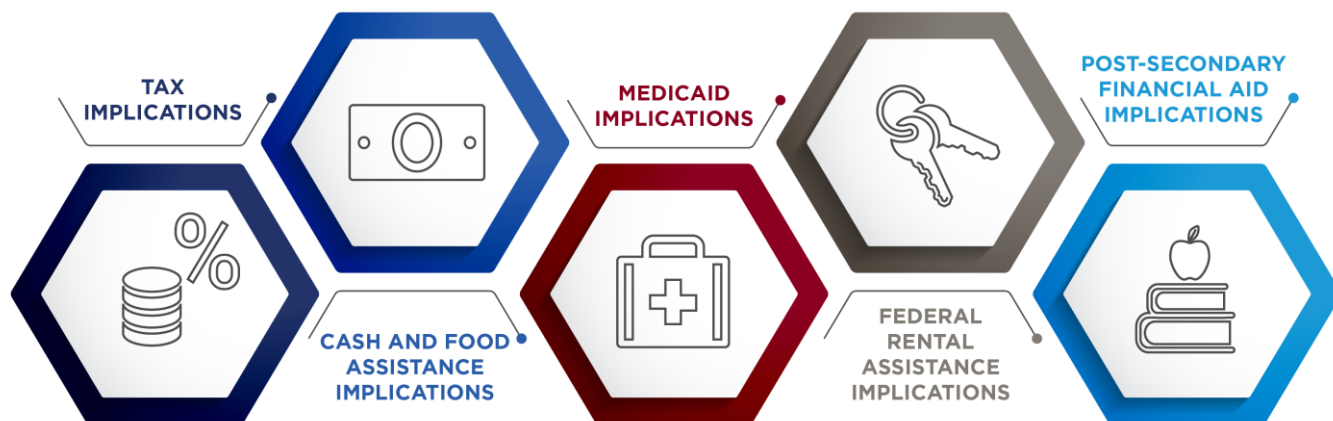
- DCT programs for transition-aged youth and youth experiencing homelessness may also want to work with or mentor young people as to how to have conversations with financial aid officers. This mentoring would be especially helpful when seeking professional judgment or documentation of homelessness or independency status.
- The analysis of the impact of DCTs on financial aid assumes that the income is nontaxable and therefore not reported on the IRS 1040. If this changes, or if some aspect of a provider’s program makes their DCT taxable, this income will have impact on the student’s financial aid award.

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## CONCLUSION

Direct cash transfers are an important way to assist young adults who are experiencing homelessness. There are an increasing number of these programs nationwide. Both the providers and recipients of funds and are rightly concerned about the impact of these programs on eligibility for financial aid to assist with post-secondary education. This paper attempts to explore all related issues, including dependency status, needs analysis, professional judgment, and changes coming in 2024–25. The paper fully explores questions for consideration, and raises important issues for policymakers and practitioners. Ultimately, the twin goals of ending youth homelessness and realizing educational attainment are and will be life changing for students who make use of these programs. The job of program designers and Financial Aid Administrators is to make sure that there are no unintended hardships for these students as they work towards realizing their dreams.

**The toolkit is comprised of multiple well-researched, vetted, and user-friendly resources that cross the spectrum of taxes and public benefits to provide clear policy analyses and recommendations for state and local jurisdictions to implement and evaluate DCT projects for youth and young adults that maximize their positive outcomes and minimize risks to participants.**



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# KEY TAKEAWAYS AND RECOMMENDATIONS

## for DCTs as a policy tool for redefining a safety net for youth and young adults

**Over the last few years, direct cash transfers (DCTs) have regained traction in the U.S. as a promising policy intervention for improving individuals' and families' economic security and well-being and reducing childhood poverty.** Unconditional DCTs offer a flexible and fungible tool that gives individuals and families the ability to best meet their needs and pursue goals that they value. For youth and young adults experiencing homelessness or housing instability, DCTs can also offer a means for quickly accessing safe and stable housing aligned with their needs and preferences.

**Yet, without taking appropriate steps, DCTs have the potential to affect recipients' eligibility for important public benefits and increase tax burden.** At best, this could diminish the positive effects of the DCT on young people's well-being; in some cases, it might even make individuals or families worse off if participation in short-term DCT programs causes loss of long-term public assistance benefits or resources they need. As noted in each of the sections of the toolkit, the addition of any income (earned or unearned, gift or otherwise) has implications for eligibility and receipt of public benefits—benefits that recipients rely on to reduce food insecurity, improve child care coverage, alleviate the cost of postsecondary education, and provide lifesaving medical care. For young adults experiencing homelessness in addition to facing other adversities, these benefits provide an important level of security but are often not enough to achieve housing stability and move from surviving to thriving.

**Various policy, programmatic, and design approaches have been successful in minimizing the risk of benefit loss or additional tax burden, while maximizing the benefits for individuals and families.** These are highlighted in-depth in the technical sections of the toolkit and summarized in Table 1. This conclusion offers three high-level takeaways for jurisdictions and organizations considering a DCT pilot or program. It also contains an invitation to envision how a DCT program could serve as a policy tool for providing a truer social safety net for youth and young adults—especially those who are unable to rely on family wealth or resources during their transition to adulthood due to legacies of structural inequality and disadvantage.



## TAKEAWAY #1: DESIGN MATTERS

The design of a DCT program matters immensely when trying to maximize a participant’s benefit from receiving a DCT and minimizing the risk of losing public benefits. While design alone does not protect against a reduction or loss of public benefits, certain design features are important for setting up a pilot or program for pursuing legislative or administrative approaches to protect these benefits. Some of these key design features include the following:

### **Structure the cash payment as a cash gift.**

As discussed in the tax implications section of the toolkit, DCTs should be designed as unconditional, meaning that the payment proceeds are made from “detached and disinterested generosity” and “out of . . . charity or like impulses” (*Commissioner v. Duberstein*, 1960; Kahn, 2018). This will ultimately reduce the tax burden for participants, and have minimal impact on public benefits like Medicaid, Social Security Disability Insurance (SSDI), and postsecondary financial aid/Pell Grants.

While design alone does not protect against a reduction or loss of public benefits, **certain design features are important for setting up a pilot or program for pursuing legislative or administrative approaches to protect these benefits.**

### **When possible, use a blend of public and private funds to finance DCTs.**

For many public benefits, state options exist to exempt DCTs as countable income or resources for eligibility and budgeting purposes (see Table 1), protecting against loss of public benefits like Temporary Assistance for Needy Families (TANF) cash assistance. Individuals and families eligible for TANF are also eligible for SNAP through categorical or adjunctive eligibility rules—in other words, when you are eligible for one benefit, you are automatically eligible for another. However, this exemption does not automatically carry over and protect Supplemental Nutrition Assistance Program (SNAP) benefits because SNAP is a federally funded program. SNAP’s rules and regulations, including the source of the funds for cash gifts, are treated differently. In April 2022, though, the U.S. Department of Agriculture, Food and Nutrition Service clarified that so long as the DCT funds are *any* blend of public and private dollars and the state had exempted the DCTs from TANF, the DCTs could also be exempted from SNAP.

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## TAKEAWAY #2: CAREFULLY AND THOROUGHLY ANALYZE THE LOCAL, STATE, AND FEDERAL BENEFITS LANDSCAPE

Carefully analyze the local, state, and federal benefits landscape (and continuously reassess during implementation, as policies, regulations, and eligibility thresholds do change).

When considering building a DCT program for scale, recognize that local or state jurisdictions have varying benefit rules and regulations. How public benefit programs are implemented and funded in a particular state or local jurisdiction changes the policy and administrative or regulatory approach to protecting these benefits, even as they relate to Federal programs or funding streams (such as disaster relief funds and the American Rescue Plan Act [ARPA], among others). Carefully analyze the local, state, and federal benefits landscape (and continuously reassess during implementation, as policies, regulations, and eligibility thresholds do change).

### Map public benefits early in DCT program design.

Each state and local jurisdiction has a unique set of public benefits, often to complement or address gaps in Federal programs. First, identify existing benefits, considering the varying characteristics of DCT participants (such as being pregnant or parenting, former foster youth, or students, among others). Next, map the benefits, noting their eligibility rules, income thresholds,

and specifics on the population eligible to receive these benefits. Finally, identify who oversees and administers these benefits (local, State, and Federal), when regulatory changes have occurred, and if there is precedent for past exemptions on income.

**Partner with city, county, and state human services agencies.** When possible, partner with city, county, and state human services to better understand public benefits. In this exploration, establish partnerships with staff who may be open to thinking creatively about administrative or legislative policy exemptions for DCTs.

**Keep up to date on regulatory and policy changes.** Local and state public benefits eligibility rules and income thresholds can change. This happens in the case of state or national disasters, as it did during the COVID-19 pandemic, and during economic downturns. Keeping up with relevant changes will be important for ensuring that the impact of DCT payments do not change partway through implementation.

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## **TAKEAWAY #3: START EARLY AND TAKE A MULTIPRONGED APPROACH TO MITIGATE ANY POTENTIAL NEGATIVE IMPACTS A DCT PILOT PROGRAM MAY HAVE ON PARTICIPANTS**

The toolkit presents multiple ways to minimize risk of benefit loss for youth and young adults experiencing homelessness or housing instability. Many of these lessons are also applicable to families participating in DCT pilots or program. Protecting some benefits can take longer than others and some benefits may not ever be protected. When designing a DCT pilot or program, take various approaches.

### **Legislative and pilot-specific waivers provide longer term coverage but take time and often strong government or advocacy partnerships to obtain.**

Changing policy at the state or federal level or seeking administrative or regulatory change to exempt DCTs as income ensures that participants' benefits are unaffected throughout the program—at least so long as they remain within the state or jurisdiction to which the legislation applies. These changes and requests for exemption approvals or waivers take time but can ultimately provide longer term security to participants. If a DCT is exempt, there will be minimal to no impact on certain benefits based on participation in a DCT pilot program. Even when projects succeed in obtaining state legislative or waiver income disregards, these do not protect DCT program participants who move to another state. For interstate coverage, federal policies would be needed.

### **Ensure participants have the information they need to make informed**

**decisions.** Provide professional benefits counseling to all potential DCT participants before they have enrolled in the program and during enrollment (in case of a benefit loss or a new benefit becoming available). It is important to be clear about any implications for public benefits or taxes that might arise from participation in the pilot or program so that participants can make informed decisions. Several tools, including the [Federal Reserve Bank of Atlanta's Guaranteed Income Dashboard](#), [LeapFund's benefits cliff coaching program](#), and others support DCT pilots in providing participants with information on how participation in a DCT may impact current public benefits or tax burden.

**Provide formal guidance on consideration of DCTs.** Participants should receive official government letters or expert/legal guidance that clarifies policy. Alternatively, government entities should suggest justification language, particularly in cases where participation in a DCT pilot technically should not affect public benefits, but caseworkers, financial aid officers, or others making advisory or processing decisions might not understand certain aspects of the policy or implement policy uniformly.

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## WHAT'S NEXT? DIRECT CASH TRANSFERS AS A POLICY TOOL FOR REDEFINING A SAFETY NET FOR YOUTH AND YOUNG ADULTS

DCTs should be viewed as **one of several tools** critical to helping young people meet their basic needs and make positive transitions to adulthood

**Unconditional DCTs are an important policy tool for improving the well-being of youths and young adults.** DCTs are supported by vast international evidence and provide an effective and flexible intervention for individuals and families made vulnerable by structural inequalities and disadvantages. Yet, DCTs should be viewed as one of several tools critical to helping young people meet their basic needs and make positive transitions to adulthood. DCT programs might initially be implemented and tested as pilot projects on a small scale, due to limitations on funding and the need for better evidence on how DCTs support specific populations and outcomes. However, the bigger vision for all of us should involve working toward a holistic, cohesive, equitable, and empowering social safety net for young people rooted in public policy, not a patchwork of siloed pilots, programs, and public assistance benefits that fail to complement one another.

**Ultimately, DCTs for housing or other outcomes could be extended to young people experiencing or at risk for homelessness as a starting foundation, not an endpoint.** All young people should have the resources they need to obtain safe and stable housing of their choosing, but they should also have a right to more than that. They should have a right to live with security, health, and well-being; they should have a right to have all of their basic life's needs met; and they should have the opportunity and resources needed to pursue the goals that they value. Young people who come from economic and social privilege often take these rights for granted. We then fail to ensure that young people experiencing or at risk for homelessness have access to the same opportunities. None of these rights should be mutually exclusive. Yet, in effect, our public policies often create this reality for young people from disadvantaged backgrounds or communities.

**We imagine a country in which the same population of young people participating in a DCT program for addressing homelessness and housing instability would be connected to (not excluded from) complementary programs and public assistance benefits.** These programs and benefits would effectively support their broader basic needs and access to opportunities during this key developmental stage of life (these programs and benefits might include food assistance, health care, child care, and postsecondary education and training). This policy toolkit provides a starting point for jurisdictions to think and take actions in these terms. When all young people have the means to thrive, so do our communities, our states, and our nation. We hope that this policy toolkit supports efforts to that end.

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**Table 1. Program and Policy Benefits and Considerations for Maximizing Benefit of Direct Cash Transfers<sup>a</sup>**

Program or Policy	Can DCT be exempted as countable income?	Key Factors around Exemption	Additional Terms
<b>Federal income taxes</b>	Yes	Must be structured as a gift, or given under current income exemption within the tax code (ARPA, disaster relief)	No conditions or perceived conditions. Given out of “detached and disinterested generosity”. . . “out of. . . charity or like impulses.” <u>26 U.S. Code §102(a)</u> . DCTs still lack explicit guidance from IRS.
<b>Supplemental Nutrition Assistance Program (SNAP)</b>	Yes	Funding source (must be fully private or private–public blend)	State option must exclude TANF/Medicaid as income. Through adjunctive eligibility, can disregard payments as countable income under <u>SNAP 7 CFR 273.9(c)(19)</u> if DCT source is public–private blend of funding. Food and Nutrition Service issued clarity in April 2022.
<b>Temporary Assistance for Needy Families (TANF)</b>	Yes	State option	States have flexibility to define countable income for TANF through state statues or specific regulation. There may be limitations, though.
<b>Medicaid</b>	Yes	Treatment of cash as gift for MAGI recipients; non-MAGI recipients count DCT gift income for eligibility	MAGI (Modified Adjusted Gross Income) is used to calculate Medicaid eligibility for adults, children, and families. Gift income up to the federal limit is excluded from counting as gross income when following IRS rules for MAGI recipients. Non-MAGI households (that is, aged, seniors, disabled, foster care children, individuals eligible for SSI) are subject to additional income and

<sup>a</sup> This table has been enhanced and adapted from a presentation: APHSA.(2022). Navigating the Benefits Cliff of Guaranteed Income Pilots. <https://files.constantcontact.com/391325ca001/71b3b92b-aabe-4435-8877-7dd876340ea9.pdf>

Program or Policy	Can DCT be exempted as countable income?	Key Factors around Exemption	Additional Terms
<b>Child Care Development Fund</b>	Yes	State option, Adjunctive eligibility	asset testing <a href="#">42 CFR 435.603(e)</a> . Non-MAGI waivers through state option are possible.
<b>Social Security Income (SSI)</b>	Depends	Federal law; funding source; treatment of cash as a gift (ABLE account)	In general, <a href="#">gift of cash</a> counts against eligibility. An ABLE account is a programmatic way of allowing SSI beneficiaries to receive cash gift without loss of benefit. Source of funds matter (see <a href="#">Social Security § 416.1124</a> ). Disaster relief, emergency assistance, assistance based on need funded by State or subdivisions does not impact SSI.
<b>Housing Subsidies</b>	Depends	Local PHA waiver; housing subsidy type	Federal regulation requires annual income to be reported. Flexibility for local options (Public Housing Assistance waiver + adjunctive eligibility). Pending implementation of <a href="#">Housing Opportunity through Modernization Act</a> which would exempt certain income for housing vouchers.

Program or Policy	Can DCT be exempted as countable income?	Key Factors around Exemption	Additional Terms
<b>Supplemental Nutrition Program for Women, Infants and Children (WIC)</b>	Depends	Adjunctive eligibility	State option around TANF, Medicaid, or SNAP important. Federal rules require public assistance, welfare payments and other cash income to be counted; however, with state option, households eligible for TANF, Medicaid, or SNAP are not subject to income determination.
<b>Social Security Disability Insurance (SSDI)</b>	Yes	Federal law; DCT treated as cash gift	Federal law states that cash gifts are counted as unearned income and therefore do not count toward SSDI benefit or eligibility.
<b>Low Income Home Energy Assistance Program (LIHEAP)</b>	Yes	State option	States have flexibility to define countable income for LIHEAP through state statues or specific regulation. There may be limitations, though.
<b>Pell Grants/FAFSA</b>	Yes	Cash gift treatment; federal law; 2-year look back period	The <a href="#">FAFSA Simplification Act of 2021</a> removed several questions about nontaxable income from the FAFSA. Cash transfers provided as gift will not be reportable on the FAFSA starting with the 2024–25 academic year. As students will report 2022 income on the 2024–25 FAFSA, any DCT payments made in the 2022 tax year and later will not be included as income for needs analysis.