RE-ENTRY POPULATION SINGLED OUT FROM RECEIVING EITC

The Earned Income Tax Credit is one of the largest anti-poverty efforts in the US today. Millions of families and low income individuals rely on the credit to round out their yearly budget and help them make ends meet. Unfortunately, one critical population is excluded from receiving the credit, the income of individuals residing in halfway houses does not count towards earned income for the purposes of the earned income tax credit.[2]

$277
Average EITC award in 2012 for family with no dependents[1]

Formerly incarcerated individuals earn **34%** less than those never incarcerated.[3]

SPECIFIC EXCLUSION
Amounts received for services performed … while at a halfway house are amounts received while the individual is an inmate at a penal institution. Those amounts are excluded from the definition of earned income under IRC §32(c)(2)(B)(iv).[4]

The re-entry population faces many hardships including interest on outstanding debts while incarcerated, finding a home upon release, and getting a job upon release, all which contribute to the high recidivism rate. **Financial insecurity is one of the many issues that contribute to their difficulty readjusting.** Money from the earned income credit is used by recipients to round out their budget and pay for necessities such as:

- Rent
- Food
- Outstanding bills
- Debt repayments

Blocking re-entry individuals from receiving the EITC not only harms them, but those that rely on them and the greater economy. Money from the EITC has a multiplier effect. One dollar from the EITC translates into $1.20 for the community. Economists suggest that every increased dollar of EITC received by low- and moderate-income families has a **multiplier effect of between 1.5 to 2 times the original amount**, in terms of its impact on the local economy and how much money is spent in and around the communities where these families live.[5]

RECOMMENDATION

– **The Clinic recommends that the income of re-entry individuals residing in halfway houses be qualified as earned income.**

– **Additionally, the Clinic recommends that financial development services be a part of the incarceration and re-entry process as well as ongoing during the prison sentence.**

SOURCES

[1] Policy Basics: The Earned Income Tax Credit. (2015, January 20). Retrieved August 18, 2015.

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[3] Western, B. (2002). Impact of Incarceration on wage mobility and inequality. American Sociological Review, 67, 526-546. Retrieved June 10, 2015.

[4] Office of Chief Counsel Internal Revenue Service Memorandum TL-N-3284-98. (1998, December, 4). Retrieved August 18, 2015.

[5] Best Practices Earn Income Tax Credit." Dollarwise. Accessed August 18, 2015.

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