

## **WORK RELEASE AND PENAL INCOME**

Reference: IRS Pub 596

Wages earned while in a Work Release program income is penal income. Wages earned while living in a half-way house following early release from prison is also penal income because the person is not free to come and go as they please while receiving training and job skills intended to help them assimilate into society. Penal income is not Earned Income for purposes of calculating EIC, Child Tax Credit, Additional Child Tax Credit or Other Dependent Credit but is treated as earned income for tax filing purposes.

Penal income is reported on a W-2 form and will not be distinguishable from any other wage statement because the income is earned at establishments who employ both prisoners as well as other law abiding citizens. If the taxpayer is not forthcoming during the interview process about time spent in prison, counselors may be alerted to the possibility that wage income could be penal income when ascertaining eligibility for the Idaho Grocery Tax Credit.

TaxSlayer handles the Work Release and Penal income tax credits correctly for penal income if the income is entered properly. It is a two-step process.

1. Enter the W-2 information as you would normally for any wage earner.
2. Click on “Less Common Income” => “Other Compensation” => “Prisoner Income”. Enter the total wage income attributable to penal income. (This will display a message on Line 1 – PRI = \$xxx on the taxpayer’s printed copy)
3. Click on Summary Print, create a PDF; ensure the penal income message appears on 1040 line 1 and the AGI total includes the penal income.