Skaggs v. Commissioner, 148 T. C. No. 15 (U. S. Tax Ct. 2017)

In Skaggs v. Commissioner, the U. S. Tax Court ruled that income earned by a prisoner while confined in a state hospital is excluded from eligibility for the Earned Income Tax Credit (EITC). Kevin Skaggs, serving a sentence and receiving mental health treatment at the Larned State Hospital, argued he was not an inmate in a penal institution. The court disagreed, defining an inmate as anyone confined, including in hospitals, and the state hospital as a penal institution due to its role in holding inmates during their sentences. This decision clarifies the scope of the EITC for incarcerated individuals.

Parties

Kevin Dewitt Skaggs, Petitioner, pro se, versus Commissioner of Internal Revenue, Respondent, represented by Douglas S. Polsky and Randall L. Eager, Jr.

Facts

In 2008, Kevin Skaggs was sentenced to 310 months in prison after being convicted of several felony offenses. He was taken into the custody of the Kansas Department of Corrections and later transferred to the Larned State Hospital from mid-2012 to mid-2016 for mental health treatment. During 2015, while residing at the Larned State Hospital, Skaggs earned income from part-time custodial work. He filed a 2015 tax return claiming the Earned Income Tax Credit (EITC) based on this income. The Commissioner of Internal Revenue issued a notice of deficiency, disallowing the EITC, asserting that Skaggs was an inmate in a penal institution throughout 2015, and thus his income was excluded from EITC eligibility.

Procedural History

Skaggs timely filed a petition with the U. S. Tax Court challenging the Commissioner’s determination. The Commissioner moved for summary judgment under Rule 121 of the Tax Court Rules of Practice and Procedure, arguing there were no genuine disputes of material fact and that he should prevail as a matter of law. Skaggs responded to the motion, arguing he was a patient, not an inmate, and that the Larned State Hospital was not a penal institution.

Issue(s)

Whether income earned by an individual confined to a state hospital, established for the treatment and custody of mentally ill inmates, is excluded from the calculation of the Earned Income Tax Credit under I. R. C. sec. 32(c)(2)(B)(iv)?

Rule(s) of Law

Under I. R. C. sec. 32(c)(2)(B)(iv), income earned while an inmate in a penal institution is not included for the purpose of determining eligibility for the Earned

© 2025 SCOTUSreports.com. All rights reserved.

Income Tax Credit. The term “inmate” is understood to include individuals confined in a prison or hospital, and a “penal institution” includes facilities that hold convicted criminals, even if they also provide medical treatment.

Holding

The U. S. Tax Court held that Skaggs was an inmate during the time he was confined to the Larned State Hospital and that the hospital was a penal institution. Consequently, his income earned in 2015 was not to be taken into account for the purpose of determining his eligibility for the EITC.

Reasoning

The court reasoned that neither the statute nor the regulations define “inmate” or “penal institution” for EITC purposes. Relying on dictionary definitions, the court concluded that an “inmate” includes anyone confined in a prison or hospital, and a “penal institution” includes facilities that hold convicted criminals, which aligns with the purpose of the Larned State Hospital’s State security hospital. The court rejected Skaggs’ arguments that his treatment and wage handling differed from typical inmates, stating these distinctions did not alter his status as an inmate or the hospital’s role as a penal institution. The court also referenced prior cases to support the irrelevance of the source of income in determining EITC eligibility. The court’s analysis was grounded in statutory interpretation and dictionary definitions to determine the ordinary meanings of “inmate” and “penal institution,” emphasizing the continuity of Skaggs’ sentence during his time at the hospital and the hospital’s role in holding inmates for treatment.

Disposition

The court granted the Commissioner’s motion for summary judgment, determining that Skaggs’ income from 2015 is not taken into account for the purpose of determining his eligibility for the EITC.

Significance/Impact

This decision clarifies the scope of the EITC exclusion for inmates, extending it to include those receiving medical treatment in state hospitals that serve as penal institutions. It underscores the importance of the legal status of confinement over the nature of the facility or treatment received. The ruling may impact other cases involving inmates receiving treatment outside traditional correctional facilities, potentially affecting their tax credit eligibility. It also reinforces the statutory interpretation approach to defining terms not explicitly defined in tax law, relying on dictionary meanings and legislative purpose.

© 2025 SCOTUSreports.com. All rights reserved.